The Business and Industry Conference on Inflation

Report
VOLUME 1

September 16, 1974
Pittsburgh, Pennsylvania

September 19, 1974
Detroit, Michigan

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U.S. Department of Commerce
Office of the Assistant Secretary
for Economic Affairs
October 1, 1974

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The Business and Industry Conference on Inflation

Summary

September 16/19, 1974
Pittsburgh/Detroit

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Introduction

The Business and Industry Conferences on Inflation conducted by the Department of Commerce brought together a group of outstanding persons who were well acquainted with the state of the economy. A substantial number of the delegates to the conferences were the chief executive officers of their organizations. Delegates from the academic community and those identified with consumer interests and labor were also present.

All of the delegates conveyed an intense concern over the economic health of our economy and characterized the current situation as serious. Virtually all of the delegates addressing the conference expressed a willingness to be of maximum assistance in diagnosing and finding answers to the problems.

The Realities of the Nation's Present Economic Condition

In response to the President's invitation for the conference participants to clearly identify our present economic condition, many delegates offered one or more observations. In general, many expressed the feeling that the current problem is something of a new experience. It is characterized by its worldwide scope, its foundations in resource and commodity cost-push pressures, and the possibility of the problem being beyond the capacity of an unassisted free-market system to repair.

The specific elements of the current situation noted by the delegates included the following:

1. The economy is and has been slowing down considerably over the past 30-90 days, but the rate of inflation has not been slowing down with it.

2. Real consumer demand has been essentially flat for an extended period.

3. The housing industry has been deteriorating steadily for many months.

4. Unemployment, while not at crisis proportions, has been and will continue to increase.

5. Money market conditions are in growing disarray with little prospect of a turn-around in the immediate future.

6. International trade and capital flows are seriously distorted.

7. Numerous materials scarcities continue to plague the economy and are hampering the prospects for economic growth.

Many delegates referred to the current situation as a period of adjustment. This adjustment was expected to be long and painful. Considerable emphasis was therefore placed on recognizing the importance of the morale of the public.

In spite of these fears, however, the tenor of the attitudes expressed by the delegates was one of fundamental faith in our ability to deal successfully with the problem of inflation. Numerous frustrations and worrisome aspects were noted, but the presence of a positive attitude was evident in the remarks of virtually every delegate.

Causes of the Present Inflation

A considerable number of specific causes for the present inflationary experience were cited. In general, these fell into three categories:

1. Monetary and fiscal policy errors.

2. Supply problems.

3. Income and demand-based problems.

The criticisms of monetary and fiscal policies were most often based upon the deficits of the Federal Government. Particular emphasis was placed upon the cumulative magnitude of the deficits since 1965 (approximately $100 billion).

The monetary consequences of such a large increase in Federal debt were also called to attention. Further, the exceedingly close relationship between long-term increases in the supply of money and long-term increases in prices were cited again and again as explaining the recent price experience.

Of all the supply problems involved in the explanation of inflation, the actions of the oil exporting nations were mentioned most frequently. It was explained that the sharp increase in oil prices affected many other prices as well. Indirect price effects also occurred through increases in transportation costs and petro-chemical-based materials.

The increase in the proportion of employment in the relatively low-productivity services sector of the economy was also singled out as an explanation by several delegates. Employment by state and local governments as well as by private service industries was involved. Recent employment growth in these occupations was asserted to have negative implications for the productivity of the economy as a whole, with resultant inflationary consequences.

Another aspect of the supply problem was the low profit levels of recent years and the increasing difficulty of successfully recovering capital costs. The inability to maintain existing capital, much less attract new investment, was believed to have played a significant role in producing our current materials shortages.

The impact of Government on business was also a commonly mentioned restraint on supply. The specific form of governmental impact varied in the presentations with some delegates citing past controls programs while others were more critical of present environment, health, and safety requirements. Very few of the industry representatives failed to include mention of Government impact in one context or another.

Income and demand forces were also considered significant elements in our current inflationary problem. Again, several aspects were involved. Perhaps most prominent (and one which had been included in the presentation given to the conferences by the Council of Economic Advisers), was the existence of over-optimistic real income growth expectations. These expectations were made doubly intensive by the difficulties inherent in accelerating real economic growth and the repeated frustration of having apparent gains which were later wiped out by inflation.

The increased power of unions to press real income demands more effectively was also asserted to be a contributing factor. The increasing difficulty of limiting wage gains to those which can be justified from productivity gains was expressed with particular emphasis.

A more basic problem in demand was also mentioned. Several delegates defined the current inflation as one of too many people chasing too few materials. The problem has international as well as domestic implications and was the foundation of a variety of policy proposals.

Policies with Concensus or Near-Concensus Support

Several policy alternatives enjoyed concensus support at the conferences. There were also a number of policy proposals

which were supported by the overwhelming majority of the delegates present, but were subject to some dissent.

Three policies enjoyed near-unanimous support at both conferences; moderation of the current restraint in monetary policy, an all-out effort to increase productivity, and a firm stand against the reimposition of wage and price controls. In urging moderation of the current stance of monetary policy, care was taken to explicitly convey the idea that moderation was exactly what was desired. Great concern was expressed over the possibility of too much ease. Further, it was felt that changes in monetary policy should be brought about gradually, rather than precipitously, but not so gradually as to convey a feeling of indecisiveness. The recommendation to increase productivity was frequently heard and motivated a substantial number of specific policy proposals. The conference delegates expressed their abhorrence of wage and price controls again and again. Controls of other economic activities such as exports and the allocation of credit were also condemned. So great was the disapproval of any return to controls that many delegates also expressed distrust of even a partial move in that direction, such as the use of guidelines.

A substantial majority of the delegates also favored increased fiscal restraint. There was substantial sentiment specifically in favor of holding expenditures in the fiscal year 1975 to the $300 billion level. Further, equally strong support was voiced in favor of a balanced Budget for the fiscal year 1976. There were, however, some differences of opinion expressed on this issue. The differences included some wishing to see even greater fiscal restraint (including a surplus in fiscal 1976) than that recommended by the majority, and a very small number of delegates who voiced a preference for some fiscal stimulus. Numerous doubts were also expressed concerning the effectiveness and practical reality of spending decreases.

Strong support for an easing of the impact of social legislation upon business was also expressed by a heavy majority of the delegates. In some cases, the recommended easing consisted of timing delays in compliance and in other cases reappraisals of requirements were recommended. The social legislation cited in these recommendations consisted primarily of pollution control, health, and safety laws.

Approaches to Combat Inflation

As might be expected from a large group of imaginative and articulate observers of the economic scene, a wide array of

suggestions for new approaches to the problem were offered. These ranged from very general suggestions to highly specific proposals and dealt with four primary areas:

1. Capital needs.

2. Materials needs.

3. Increasing productivity.

4. Expediting fiscal restraint.

Several suggestions, however, did not fit into any of these categories.

Recognizing the difficulties of the capital markets as one of the prime causes of our current inflation, numerous suggestions were aimed at alleviating this problem. In order to increase the supply of investment capital, recommendations were made as follows:

1. Capital which is moved from one investment to another should be extended the same type of rollover privileges for taxation as are currently enjoyed by homeowners moving from one home to another.

2. Tax relief should be given to business using internal funds for investment.

3. Interest earned by individuals on deposits in savings and loan institutions should be exempt from taxation. The recommended amounts of such exempt interest varied from $750 to $2,000, with one suggestion for a $1,976 tie-in with the campaign honoring the Nation's 200th birthday.

Several suggestions were also made to increase incentives to channel capital into investment and ease the inflation-caused cash-flow difficulties of businesses. These included:

1. Conversion of depreciation schedules to a replacement cost basis rather than original cost.

2. Acceleration of depreciation schedules, particularly for projects still under construction and capital equipment required by environmental or safety regulations.

3. Enactment of a variable investment tax credit for specific industries to be scaled according to their capacity conditions.

In addition, several other proposals relating to capital needs were offered. One of these was to expand the role of the Small Business Administration by having it combine with the private sector to ensure an adequate flow of capital for small businesses. Another proposal called for establishment of a Government program to loan money to the Nation's thrift institutions.

Policies bearing on our materials needs reflected the broad complexities of the problem. The most frequently expressed need was for Government-to-Government negotiations over the supply and price of petroleum. In addition to negotiations concerning oil, it was recommended that the President call a meeting of world leaders to discuss the problems of resource users and producers. To expedite the President's position in such negotiations, many delegates also called for the passage of the International Trade Bill currently before the Senate. It was generally held necessary for the United States to take a leading role in developing and pressing for an international code of conduct for trading nations.

It was also recommended that a national materials policy be established, with the planning function occurring at the Cabinet Level. Longer-range planning, as well as a more concentrated effort to spot shortages before they occur was also recommended. To aid this effort, the need to provide ourselves with an expanded data base was discussed as well as the general advisability of a sustained search for ways to increase materials production.

Conservation efforts to help overcome materials scarcities were also recommended. These included continuation of the 55-mile-an-hour limit for automobiles, greater efforts to avoid introduction of unneeded products (defined as those which filled created rather than real human needs), and a tax on nonessential items.

The emphasis on improving productivity growth was very great. Proposals bearing on this question included the following:

1. Reduction of the barriers to the introduction of new technology (e.g., expediting patent processing, etc.).

2. Reappraisal of the cost effectiveness of existing governmental regulations, particularly pollution, health, and safety requirements.

3. The elimination of labor rigidities which block possible increases in productivity.

4. Reevaluation of the continued relevance of existing antitrust policies, with special reference to the apparent differences between domestic and international needs.

5. Reinvigoration of the Productivity Commission.

Several less specific proposals were also put forth. One consisted of a call for greater business and labor cooperation in attempting to increase productivity, and another related to currently underutilized elements in the labor force. The underutilized groups which received greatest emphasis were blacks and women. The suggestion was for better use, not just more use, of these valuable human resources.

Suggestions to expedite fiscal restraint concentrated most heavily upon ideas for new taxes. Much less attention was given to specific suggestions for spending cuts, though the idea was strongly endorsed as a general principle. Specific tax suggestions included the following:

1. Excise taxes on luxuries and amusements.

2. A surtax on incomes above $15,000 a year.

3. Windfall profits of business.

4. A tax on automobiles, scaled according to gasoline consumption or cylinder displacement.

5. Elimination of the tax deduction of interest on consumer installment loans.

The sentiments in favor of reducing Federal spending were encompassed in calls for a moratorium on new Government programs, passage of a Congressional commitment to balance the budget, and limitation of future budgets to the 1975 proportion of Government expenditures to national income. Few specific program cuts in expenditures were recommended at all, and no one item was recommended for cutting by more than one delegate.

Among the suggested new approaches which resist categorization was one to encourage companies to conduct an "Inflation Audit." The proposal envisioned individual firms

reexamining their operations with a view toward reducing inflation in a manner paralleling their efforts to conserve fuel during the crisis last winter. The proposal was not described in detail, but the idea was given a warm reception by many delegates.

Numerous proposals for the Federal Government to initiate a temporary public employment program were also set forth. The effort was considered necessary because policies to combat inflation were viewed as very likely to increase the unemployment rate. One delegate, however, expressed the fear that the problem was larger than the Government's capacity to correct and cooperation by business and labor would also be required.

The need to involve the public in the fight against inflation was judged to be of considerable importance. Efforts to educate the public concerning economic problems were strongly endorsed. The possibility of instituting a National Citizens Crusade to monitor price increases was also prescribed. A particularly imaginative plan, referred to as the "5 and 10 Program" was also described. This program consisted of instituting a well-publicized campaign to get individual businesses to pledge not to increase prices more than 5 percent between Labor Day 1974 and Labor Day 1975, and unions to pledge not to demand wage increases in excess of 10 percent during the same period.

A great point was also made of the necessity to equally distribute the sacrifices involved in any anti-inflation effort in order to obtain public support and harness the current inflation psychology. The crucial need for the sacrifices to be demonstrably necessary and equitably distributed was repeatedly stated. Credible, realistic goals were also viewed as vital (one suggestion in this regard being a goal of 3 percent or less inflation at the end of 3 years).

Areas of Hardship

Areas of hardship were specified in several contexts. These included income, economic sectors, and broad institutional categories. The most obvious concern was, of course, with the plight of low-income individuals. The particular burden experienced by the poor as a consequence of inflation was noted by many delegates. Specific economic sectors, which were singled out as experiencing more than their share of problems at the present time included livestock raisers, firms in the lumber and plywood industry, basic materials, utilities, housing and savings banks. The broad institutional categories which were cited as requiring special

attention included schools, hospitals, museums and charitable organizations. Small businesses were also asserted to be experiencing great difficulties. Firms providing distributional services such as wholesalers and suppliers were reportedly in particularly difficult situations because of their lesser capacity to respond to price increases and the growing liquidity difficulties. This last point was often related to the great hardships existing in the financial sector.

The business and industry conferences revealed the widespread and multifaceted problems caused by inflation. They also revealed a growing awareness that stopping inflation will require the full cooperation of every sector of the economy. In short, these responses to the request of the President and Congress for advice and assistance augur well for the challenge which lies ahead.

CONFERENCE ON INFLATION

The William Penn Hotel
Pittsburgh, Pennsylvania
September 15-16, 1974

Agenda

Sunday, September 15, 1974

7:00 p.m.	Allegheny Room, 17th Floor Distribution of Conference briefing materials to delegates.
7:30 p.m.	Dinner.
	Welcoming remarks by Secretary Dent.
	The statement of ground rules and the objectives of the Conference, the schedule for the following day, and the plans for the President's Conference on September 27-28, 1974 will be reviewed.
	Welcoming remarks by member of the U.S. Senate.
	Welcoming remarks by member of the U.S. House of Representatives.
9:30 p.m.	Adjourn.

Monday, September 16, 1974

8:30 a.m.	Grand Ballroom, 17th Floor Opening remarks by Secretary Dent.
	Opening remarks by Congressional speaker.
	Presentation on the economy by the Council of Economic Advisers.
	Presentation on Federal budgetary issues by the Office of Management and Budget.
9:00 a.m.	Individual presentations by industry delegations.
10:30 a.m.	Coffee break.

10:50 a.m.	Industry presentations (continued).
12:30 p.m.	Lunch. Monongahela Room, 17th Floor, for industry and government delegates only.
2:00 p.m.	Secretary Dent reconvenes afternoon session. Review of morning activities.
	General discussion of economic recommendations for action that the President and the Congress can take at this time.
	Closing by Secretary Dent and Congressional leadership.
4:30 p.m.	Adjourn.

BUSINESS AND MANUFACTURING CONFERENCE ON INFLATION

The Detroit Hilton Hotel
Detroit, Michigan
September 18-19, 1974
Agenda

Wednesday, September 18, 1974

7:00 p.m.	The Michigan Room, Ballroom Floor
	Distribution of Conference briefing materials to delegates.
7:30 p.m.	Dinner
	Welcoming remarks by Secretary Dent.
	The statement of ground rules and the objectives of the Conference, the schedule for the following day, and the plans for the President's Conference on September 27-28, 1974 will be reviewed.
	Welcoming remarks by member of the U.S. House of Representatives.
9:30 p.m.	Adjourn

Thursday, September 19, 1974

8:30 a.m.	Grand Ballroom, Ballroom Floor
	Opening remarks by Secretary Dent.
	Opening remarks by Congressional speaker.
	Presentation on the economy by the Council of Economic Advisers.
	Presentation on Federal budgetary issues by the Office of Management and Budget.
9:00 a.m.	Individual presentations by industry delegates.
10:30 a.m.	Coffee Break
10:50 a.m.	Industry presentations (continued).

12:30 p.m.	Lunch
2:00 p.m.	Secretary Dent reconvenes afternoon session. Review of morning activities.
	General discussion of economic recommendations for action that the President and the Congress can take at this time.
	Closing by Secretary Dent and Congressional leadership.
4:30 p.m.	Adjourn

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Indiana University
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II. CONFERENCE TRANSCRIPTS:

Pittsburgh Conference–September 16, 1974

Detroit Conference–September 19, 1974

FOR IMMEDIATE RELEASE MONDAY, SEPTEMBER 16, 1974

UNITED STATES DEPARTMENT OF COMMERCE

CONFERENCE ON INFLATION

PITTSBURGH, PENNSYLVANIA

SECRETARY DENT: Cooling the fever of inflation is our goal. Price stability, job security and renewed growth in our economy are the benefits we seek to achieve for all Americans. Private business and industry have made America great -- more products for consumers than anywhere in the world, more strength in national defense than anywhere in the world, more economic independence for people than anywhere else in the world.

I want to extend a warm welcome to the members of business and industry who are joining today in this meeting called by the President and the Congress of the United States to discuss inflation in the United States.

I want also to welcome the members of the public and the press who are in attendance with us. Those who wish to participate in the proceedings from the public are invited to submit written presentations which will be presented in the record of this meeting and considered by those who are preparing for the Washington Summit September 27 and 28.

We intend for the Government to listen today to the suggestions of business and industry as to how Government and the nation should deal with the problem of inflation. The goals which have been established for the Conference on Inflation are:

1. To clarify the realities of the nation's present economic condition;

2. To identify the causes of the present inflation;

3. To search for the consensus on the basic policies which should be adopted to deal with the problem of inflation;

4. To explore new and realistic approaches to combat inflation;

And finally, define areas of hardship needing immediate action.

The arrangements for today's meeting involve presentations of approximately three minutes by the delegates. We will warn you at the end of that time by a bell.

We have a Mr. Farrell going down behind the delegates now to receive written submissions for the record. We will accept these now, later in the day or by mail as long as we can maintain the record open.

We ask each delegate first to identify himself by name and company and secondly to mention the number on your microphone. We will turn these on as you are speaking; they are dead in between times.

Now it is my great pleasure to introduce on behalf of the congressional delegates Congressman William Moorehead of Pittsburgh.

MR. MOOREHEAD: Number 17, Mr. Secretary.

Thank you very much. Let me say, ladies and gentlemen, first my congratulations to Secretary Dent who, despite last weekend's ordeal as the father of the bride has brought to Pittsburgh in this meeting the energy and the intelligence which has been an inspiration to all of us who have been participating with it.

You know that Secretary Dent, Undersecretary John Taper of Pittsburgh and I have one thing in common, we all attended Yale College along with Mac Baldridge over here. Most of you know the old thought about Harvard and Boston, the home of the bean and the cod where Cabots speak only to Lowell's and Lowell's speak only to God.

In Yale we know it as "Here is to the town of New Haven, the land of the truth and the light, where God speaks to Jones in the very same tones that he uses with Adlai or Dwight."

So now I welcome you to the City of Pittsburgh, the home of the Steel and Buck, where we are bound to succeed and meet every need and not just because of our luck.

Mr. Secretary, my congressional colleagues and I are tremendously impressed with the all-star array of talent you have assembled to advise us today on the very serious economic problems facing our land.

Secretary Dent has wisely and courageously admonished the congressional delegates that we are to listen and not to talk. Therefore, my remarks will be in the form of questions or challenges to this assembly:

One, how can we adopt policies that will attend the pains of inflation without producing the agonies of recession.

Two, have we seen a peak in increased prices of imported industrial raw materials or should we be making contingency plans on the recent statements of the OPEC countries to be concerned.

Three, we all recognize that to cure inflation without inducing recession will require some sacrefice by all of us -- business, labor and consumer. This is largely a business meeting, so what is business willing to give, not to ask so that we in congress can say to the people, "You are not sharing the burden alone." Profits are essential in the present enterprise system but the people would like the assurance that governments are going to be used to increase productive capacity and reduce the imbalance of supply and demand.

Four, will the devaluation of the dollar leave more increasing productive facilities at home rather than abroad.

Five, will you support us if we try to eliminate artificial constraints that tend to raise prices in our economy, import quotas, retail price maintenance and inefficient prices in regulated transportation industries.

Six and finally, we all agreed that Federal Government expenditures should be reduced. Will you help us to find ways to reduce such expenditures of public works

and develop contracts, highway projects and so forth so that all of the cuts will not fall on the social programs that benefit the poorest in our land.

There are more questions that could and probably will be asked. We of the congressional delegates on a bipartisan or better on a non-partisan basis look forward to your expert guidance. We in Pittsburgh are proud that you have chosen our city in which to present this.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you very much, Mr. Moorehead. At this time I would like to introduce the senior Senator from Connecticut, Senator Ribicoff.

SENATOR RIBICOFF: Mr. Secretary, it is a privilege to be here with men and women of your intelligence and experience. As I said last night, we are here to listen and to learn hopefully in a meeting such as this on the 27th or 28th of September that some suggestions that relate to an action program by the Executive Branch and the Congress and the people of this country. I know this will be a most stimulating day.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you, Senator.

The next item on the agenda is a presentation on the state of the economy by Dr. William Fellner, member of the Council of Economic Advisors. Mr. Fellner.

MR. FELLNER: Here and in the countries abroad inflation has developed and has accelerated because of excessive concern with short-term advantages and insufficient concern with longer run costs. This is the main lesson to be derived from the recent experience in the United States and abroad.

The public underestimated the inflation rate for many years and under the influence of steeply rising money incomes it has entered commitments in the expectation of more real income than was available.This has been true particularly during the past few years when the country's terms of trade with the rest of the world were deteriorating and, in addition, the nonfarm sector's terms of trade with the farm sector were worsening. When corrected for inflation, both the recent wage trends and the recent profit trends have been disappointing.

We shall have to go through an uncomfortable period of adjustment to get back to normalcy but nothing one would call a crisis is in the offing unless serious mistakes are made which it is quite possible to avoid. Contacts with persons of experience and judgment in various occupations are essential to make sure that such mistakes are indeed avoided and that all useful ideas get a hearing. The present conference is one of several serving this important purpose.

Turning to the outlook for the immediate future, we expect little change in the real output during the remainder of the year and early in 1975. Also, partly as a result of less favorable crop prospects than had been hoped for, we expect that the reduction of the rate of general price increase will be slow. But given the necessary restraint in shaping our monetary and fiscal policies the inflation rate should start decelerating appreciably once the raw-material price increases have worked their way through the price structure. This will in fact be so unless in the meantime the money wage trend should accelerate in such a way as to block the restoration of healthy real wage trends through a sufficient reduction of the rate of price increase. It is in the common interest

of all elements in the population to avoid such a self-defeating money wage and price escalation. All responsible decision makers are aware of this.

There is general awareness also of the need to reduce tensions in the credit market. The tighter fiscal policy toward which we are determined to move could make a considerable contribution to easing credit conditions because it will reduce the role of the Government as a borrower of funds and reduce the strain which government operations cause in the market.

Having thus arrived, Mr. Secretary, to the point that fiscal policy programs are raised, I yield to our friend, Mr. Scott, who sits next to me.

SECRETARY DENT: We are fortunate to have with us today Associate Director of the Office of Management and Budget, Walter Scott, who will present an overview of the Federal budget.

MR. SCOTT: Thank you, Mr. Secretary.

I hope you will defer the three-minute limit although I hope that is not necessary.

SECRETARY DENT: Mr. Scott will also take questions on his presentation afterwards.

MR. SCOTT: Dr. Fellner has led into this brief presentation of fiscal policy. Let me expand and perhaps give you a better understanding of the budget and how it works and in terms of our cutting it substantially in the shortrun.

I would like to take you to where we are and how we got there and a little bit of the nature of the budget so we can develop an understanding of the budget as well as political implications which exist for major budget cuts. I had hoped we could project some slides and I am told those are washed out. There are some charts on view which I will try to cover.

The first chart relates to Federal budget outlays in the period 1961 through 1975 in both constant and current dollars. As you can see, Federal outlays tripled over the past decade and a half. In 1961, the Government spend under $100 billion; in 1975, it is estimated to spend close to $300 billion.

The growth in Federal outlays is very different as you consider the impact of rising prices. The constant 1975 dollars in Federal outlays rose 50 percent from 1961 to 1968 and since that time they have been relatively stable.

Now, 1968 is the key year because that is the time we with the greatest, began bread and butter strategy.

Now, we move to the next chart. This lays out the Federal outlays as a percentage of GNP. Again, over the 15-year period, we can see outlays of range rather

substantially from about 18 percent up to about 21-1/2. Again, 1968 represented a high in terms of the proportion of American productive assistance which was being delegated to government kinds of services.

While a proportion of GNP government spending declined somewhat since 1968, it is obviously not going back to the levels prior to the Viet Nam buildup. The story for 1975 could be a little lower than this if we are in fact successful in achieving some of the budget that is under consideration now.

The next chart lays out the composition of real Federal outlays. As you can see, the flat budget figures since 1968 have substantial changes in the spending patterns. Essentially, the wind-down from Viet Nam has provided the dollars with which to expand the individual grants since that time.

The 1975 budget level defense spending is the lowest level at any time since the Korean buildup; it has gone from 46 percent of the budget in 1961 to 29 percent in 1975. Military manpower has been cut from a high of $3.5 million in service to $2.4 million in 1974, the lowest level since 1950.

Individuals during this period and now, the largest category of the budget, have increased from 27 percent in 1961 to 54 percent in 1975 and constant prices paid to individuals in 1975 are nearly triple the 1961 level.

Real and Federal grants from State and local governments rose by almost 300 percent between 1961 and 1973 and since that have relatively established.

Real outlays for interest and other non-defense rose 44 percent between 1961 and 1968 and since then declined steadily and are now below the 1961 figures. This looks like it reflects several factors including the decreases in spending for space and foreign aid increases in off-short oil receipts, off-short oil lands which in the jargon of the Federal budget are a negative expenditure. It sounds like Swiss corporate accounting. Also this decrease since 1971 reflects a rule of several agencies from the budget itself.

Now, let's move on to the next chart, a more detailed consideration of the composition of the budget. Also, my understanding of what we must do to in fact cut the budget below the $300 million figure for fiscal 1965 and move toward a budget for 1976.

I hope this will give you an idea of the budget momentum which is very, very difficult to arrest and whereby the steps must be taken now or promptly if in fact we are to move in 1976 toward budget balance.

This is a somewhat unusual way to look at the budget but we think it will help you to characterize the programs and the problems in achieving them.

The first session of this table lays out the trifle obligations which are about one-fourth the total budget outlays. This includes the interest on the net as well as contracts which have been entered into in prior years, which the element will be subject to either legal penalties or substantial renegotiation of these contracts if in fact it is decided to have a completion of them or substantially modify their nature.

These might be ridges, it might be one of many different kinds of items on which the commitments have been made in previous years.

The second major category, one-hundred forty-two billion dollars, covers the programs which are largely related to individuals. These include social security, general revenue sharing programs and such as that.

This requires changes and basic legislation establishing payment levels, et cetera.

As you can see, roughly 70 percent of the budget for 1975 is in these mandatory kinds of spending figures. The remaining 30 percent is in discretionary outlays.

Defense outlays, which account for about 60 percent of the remaining outlays, are mostly personnel costs. You can see from the $37 million figure that to substantially reduce this figure would suggest changes in the basic troop structure of our commitments abroad.

As you are aware, the President is committed to maintaining a strong defense structure and it is probable in this case that this will decrease somewhat as a result of Congressional action on the part of the defense appropations which are now taking place.

Now with the $35 billion which is left you have discretionary programs, non-defense, and it is mostly gain personnel. As you may have read in the newspapers or in the recent cut of government personnel announced, which is perhaps a modest 40,000 personnel level, which will result in savings of approximately $300 million a year, we are now involved in that.

It may be interesting for you to note that essentially, aside from the federal government civillian personnel it is the same approximately in size as it was during the 1940's. It has been relatively constant throughout this period as most of the growth within government is taking place in transfer payments and dollar transfers which are essentially not particularly the subject of this meeting.

I might mention as an aside the number of people involved in state and local governments during that same period has grown from three million people to about eleven and one-half million people.

The final item you can see in this chart lists offsets which includes the offshore oil lands contribution for retirement funds and items of that kind.

Now, the next chart, Discretionary Outlays, we get a better handle on the kinds of things we would have to cut if in fact we are going to make major cuts within the 1975 and 1976 budget. These are the programs that are essentially the easiest to cut. Nevertheless, unfortunately, as you look at them, more than half of these began the social kinds of programs others may relate to the atomic energy, Project Independence and more priority in developing the energy self-sufficiency we are shooting for in 1980.

Perhaps to give you a handle on these figures and the unfortunate still difficulties underlying substantial cuts within them is looking at the federal aid to highways which is $700 million. This implies that we will terminate the program this year. The program is in the budget as a $4.6 billion figure but because of the fact that we had only spent 15 percent of the first year savings in that first year is $700 million instead of $4.6 billion figure that I mentioned.

The secondary item we should look at are opportunities where the practical impact of those cuts is very, very troubling unless the program is recovered in the next chart.

You can see, then, the programs for individuals accunt for 94 percent of these outlays. Obviously, this is a very difficult area to cut and particularly so because two-thirds are paid to individuals in Medicare and retirement benefits. Inflation at unacceptable levels, the propriety of cutting these kinds of areas is very, very difficult.

All of these I mentioned previously -- legislation required to amend the entitlement levels or the types of people.

I notice in going through these charts they provide some perspective on the federal budget and what it represents. Obviously, we have a major task confronting us if we are to succeed in using the expenditure side of the budget as one of the key tools in dealing with inflation. It is very, very difficult in our decisions to have to be made in terms of the priorities within any given expenditure level. It will require a major commitment on the part of the Congress in terms of restoration to make a program of this kind successful.

Thank you.

As Secretary Dent said, I will be pleased to try to answer any questions which you may have.

SECRETARY DENT: Do we have any questions?

QUESTION:

MR. SCOTT: Yes.

QUESTION: Mr. Chairman, Mr. Scott mentioned the troop level withdrawal. Does it relate more to the military establishment?

MR. SCOTT: Well, the two are obviously related as well as the forces stationed abroad either NATO or Southeast Asia or whatever they may be. The particular level of troop support, if in fact we determine that it was necessary and desirable to in fact reduce those levels, that would suggest a requirement to in fact be pulling some of those in doing away with some of those troops abroad in this country.

QUESTION: What is the total cost of the military in Europe?

MR. SCOTT: It is a very sizeable proportion in terms of the personnel.

SENATOR NUNN: It is very difficult to answer that because it interrelates where you are talking about our committment. The committment will obviously include strategic weapons that are included in the Mediterranean, some all over the world.

If you are talking about total NATO committment as computed by DOD, it will be about $17 billion per year. That includes many troops that are here that are committed to Europe in the event of hostilities, what they call two plus ten, it has.

Now, when you get down to our actual outlays for our European troops in Europe including the Mediterranean fleet, you have about $4 billion per year but when you get total balance of payment, part of it you have about $2.2 billion per year. As you know, now we have a compulsory offset passed by Congress last year that requires our European allies to completely have our balance of payment deficit. That, Mr. Scott, is $2.2 billion. That relates to the balance of payment detriment by reason of our NATO commitment.

There are some critics that say that should be $30 billion and that gets into all manner of debate of what we are really committed to NATO, what we are committed to our own defense. In my opinion, the two are interrelated.

MR. SCOTT: It seems an important element to get across here is not necessarily justifying our not justifying the social programs or whatever it may be but for you to understand that a very, very difficult kind of trade-off decisions which we are going to have to make in terms of where and how we are spending Federal dollars while most of us look at a budget which now stands at a $304 billion figure and say well, you can just skim off 10 percent for inefficiency.

Unfortunately, it does not work that way. Some very fundamental antagonizing is going to have to take place if in fact we are to cut any meaningful dollars out of this budget. Major efforts are always underway and will continue to in fact get the fat out of the budget and there is loss of it there that is ripe for this kind of an effort.

If we are going to promptly get big chunks out, it is going to require exact legislation and decisions whether we should increase or decrease the program and so on.

SENATOR BEALL:

MR. SCOTT: The Federal revenues as you know have been substantially fluctuating much more substantially than unfortunately than half the expenditure side of the budget with the built-in factors.

The revenue side of the budget this year will be close to $294 billion figure and for next year it is presently projected slightly $330 billion.

Now, just keeping in place the programs that we have encompassed in the present legislation and in the 1975 budget, the budget which I indicated is about $305 billion right now is keeping this same program without any expansion

in program which will give us a $340 billion figure in fiscal 1976. So the upward pressures are just immense and the pressures that are recent expenditures at least is not healthy, naturally graw faster than the revenue side unless we can take some steps to alter that.

SENATOR BEALL: Does that increase the increased cost of inflation?

MR. SCOTT: No.

SENATOR NUNN: Let me make one further comment on this NATO world-wide troop commitment. If we are going to debate this rationally in months or years to come, I don't think we have in the past few years, particularly on the NATO withdrawal. There are two separate questions that have to be addressed separately.

Number one, what should the overall level of our troop commitment be in terms of our own national security, independent of where they are stationd? That ought to be a question that we can debate in terms of what we see as our own national security.

Then, second, a component which ultimately is separate is once you arrive at that total, where should they be stationed because if you keep debating the two at once, you confuse the issue beyond almost any possible rationale. It does not really do good to bring troops home from Europe or Korea in terms of budgetary outlays if they are not going to be taken out of the service. If you are going to bring them back and put them hopefully at Fort Benning, Georgia, it does not do any good unless you get them out of the service because there are many places in the world where they can be maintained and kept and housed cheaper than they can in this country.

Now, that does not mean that I am for keeping them all overseas but I do think you have to divorce those two things and you have to have them separately if you are going to have any meaningful comparison.

In Europe for instance, right now Germany is putting up the cost of the barracks. We would have to build new barracks all over this country or wherever they were going to be stationed if you brought them back. Unfortunately, those two things have been so intertwined that we have not had any meaningful debate.

MR. MOORHEAD: Would the gentleman yield?

SENATOR NUNN: Yes.

MR. MOORHEAD: I think that is demonstrated in the presentation that you said non-defense is the easiest to cut and then you give us a table on the non-defense outlays. I think I would like to have seen table 5-A which is defense outlays, so the rest of us could rationally debate where and how and in what we could make reasonable cuts in that area.

MR. SCOTT: That is not included because of the fact that is the single type of item among the potpourri of types of items of the lots of different programs in the area.

SECRETARY DENT: Are there any questions from the private sector concerning the Federal budget presentation?

QUESTION: I had a question on the figure that I have in my statement today which was $30 billion. You have $33 billion. Evidently, I am wrong.

MR. SCOTT: The figure in here is the figure which is included in the budget which excludes -- it is the net figure so some of it has some thrust on it.

SECRETARY DENT: Are there any other questions?

We then assume the Federal budget is thoroughly understood in the private sector and we will move on to a discussion of the issues, the questions presented in writing by the president to the delegates as well as addressing the goals of the meeting.

I would like at this time then to shift to the private sector presentation and call on Mr. John Connor, Chairman of Allied Chemical Corporation as our first speaker.

MR. CONNOR: Thank you Secretary Dent.

I am at microphone eight.

I will summarize briefly the statement that I have already given for the record.

Secretary Dent, my thanks go out to the President and you for this opportunity to present my personal views on a possible anti-inflation program. As you will see, my views differ from many others in industry. In fact, they differ even from those of some of my Allied Chemical management associates.

First of all, I wish to compliment the President for calling these meetings. Too often in the past the business community has seen government intervention into business activities without any opportunity for prior discussion. It is no fun being in on crash landings and not the takeoffs. Therefore, we welcome this opportunity to have a constructive dialogue out of which may come, if not a consensus, then some helpful ideas, suggestions and concepts for consideration by the President and the Congress.

The background of the current economic dilemma has been adequately documented by others, such as the NAM and I will not review the unwise fiscal and monetary decisions

in the last ten years that have had such serious inflationary consequences. It does seem to me that the more recent tight fiscal controls and even tighter money policies have produced the anti-inflation results desired by those Federal Government officials responsible for the programs. But, I question whether continuation of these policies for much longer is advisable or even possible.

These controls have already produced a drastic reduction in home building and a slowing down of construction activities in public utilities and other industries; a decline in consumer spending, particularly for big ticket items such as automobiles; rising unemployment which probably will reach a dangerous level early next year; a rising number of bankruptcies, particularly in small businesses; and the chaos that now prevails in our free market for equity and debt issues.

Now we are in a stage where the high cost of money that must be paid by individuals and businesses requiring bank loans has itself become a serious inflationary factor when reflected in the cost of goods and services. Still, the wholesale and consumer indices go higher and higher.

Realizing that the economic purists still insist that we wait for the boom of the past several years to turn into a bust before any change in policy direction is taken, I suggest that this current situation does not represent a classic model of the normal swing of the business cycle. It is much more than that because of the growing world-wide recession, characterized by growing deficits in balances of payments and balances of trade for many nations.

The rapidly proliferating immediate crisis is a reflection of the high crude oil prices the energy consuming nations must pay. It is becoming all too clear that the impending bust, when it comes, will be world-wide in scope and beyond the competence of free market forces to repair.

Because of the persistence of a strong belief in official quarters of the continuing need for tight money and balanced budget policies, we must assume that these policies will continue and thus the recessionary trends will worsen for at least the next three to six months.

Nevertheless, I want to state my conviction that the Federal Reserve Board should start moderating its tight money policy immediately to stop the developing liquidity crisis. The Board should not go to the extreme easy money policy it followed in 1972, but should loosen up just enough -- say, eight percent instead of six percent growth in money supply -- to show a reversal in trend.

In view of the unprecedented nature of this economic crisis, I suggest the need for contingency planning starting right now to be ready to cushion and then reverse the impacts of a serious recession. Specifically, I see the need for federally supported public service and public works activities to cope with the rising unemployment problem, which by the second quarter of 1975, in my opinion, will rise above siven percent nationally, and to much higher levels in some of our largest urban centers. I see the need for further financial assistance to small businesses and possibly the creation of a new RFC to save thousands of business firms from bankruptcy. I see the need for measures designed to promote the flow of available bank funds where they will be needed most in the national interest.

Beyond that, I see no need for additional financial incentives to the business community, even to overcome the many shortages of materials and supplies that now exist in our national economy. But we emphatically do need to retain the present programs that help us expand inadequate production levels for many materials and products in short supply, such as the seven and a half percent investment tax credit, the present Asset Depreciation Range, the oil and mineral depletion allowances and the export incentive program, DISC.

All existing uncertainties about their continuance should be resolved and replaced by firm commitments by the Administration and the Congress to leave them in place for at least two years.

The inflationary uncertainty about the possible reimposition of economic controls should be resolved and replaced by a firm commitment that such controls will not be reinstated. The increasing supply of many goods, plus the lowering of demand as the recession progresses, should soon put an effective lid on further price increases, except for food and oil and natural gas where shortages will persist for some time.

The net effect of the spending programs I am suggested would be to raise federal expenditures somewhat above fiscal 1974-1975 levels, but courageous reductions by the Administration and the Congress in other federal expenditure programs should hold the increase to about five percent in fiscal year 1975-1976.

Of course, in the kind of critical economic climate I have described, we must expect a fall-off in federal corporate and personal tax receipts. Therefore, I consider it unwise to become firmly committed to a balanced budget at this time.

I would like to emphasize one problem of overriding importance that must have early attention. In the last year we have experienced the results of the effective emergence of an energy cartel among the third world oil producing countries -- OPEC -- which has restricted the supply of crude oil and raised costs of all forms of energy to unprecedented levels in the industrialized nations. Other raw material supplying nations with similar leverage are endeavoring to follow the OPEC example.

The situation is now at the crisis point, not only in the United States but throughout the world. It requires rigorous, significant and concentrated measures to correct. The alternative to stern, disciplined and cooperative action by the oil-consuming nations now is world-wide economic catastrophe of unprecedented proportions.

The problem is world-wide, encompassing developed and underdeveloped nations alike, because of the interdependency that has developed between nations as both sources of materials and markets for goods. Hence, a single nation's efforts to resolve the problem will not be effective.

In my opinion, these conditions call for direct Government-to-Government negotiations. No one private U.S. petroleum company can handle the problem, particularly since the corporations doing business differ from country to country, and our antitrust laws prohibit the petroleum companies from acting in concert. We need a much more effective organization of United States Government efforts to conduct Government-to-Government negotiations on a continuing basis to obtain price reductions and adequate supplies and to manage the monetary consequences of the rapid shift of the world's wealth from the industrialized countries to a comparatively few oil-producing nations.

Also, our Federal Government must manage the nation's energy conservation programs and must subsidize a large part of our national program for expanding coal and nuclear power activities to become less dependent on foreign crude oil by 1980.

As part of that energy conservation effort, the President should ask Congress to ease the intolerable financial burden of the anti-pollution programs, especially since there is a shortage of capital now and for the next five years when present laws hit hardest. Consideration should also be given to allowing pollution control expenditures to be tax deductible in this period of capital shortages, and thus ease the capital burden on corporations and municipalities.

In summary, in my opinion, we are rapidly approaching an economic crisis of unprecedented proportions. All elements of our society will need the cooperation, understanding and help of the executive and legislative officials of our Federal Government in order to pass through the crisis period reasonably well and in a reasonable time.

Even with that help, my personal opinion is that we will never again return to the "normalcy" we knew in earlier periods because the continuing and growing energy problems will make that impossible.

Nevertheless, we owe it to ourselves and succeeding generations and to people all over the world to manage our problems and opportunities as best we can, even in a rapidly changing and worsening economic environment.

SECRETARY DENT: Thank you, Mr. Connor, very much for the initial statement.

The press has indicated if they could have forewarning it would be useful so we will call on the second speaker in a moment. We hope that the third will prepare himself and I suggest Mr. Debutts be number three.

At this time, however, we would like to call on a Pittsburgh businessman well known all over the country, Mr. John Harper of Alcoa.

MR. HARPER: Thank you, Mr. Chairman.

MR. HARPER: Mr. Secretary, distinguished Members of Congress, and fellow concerned citizens: Inflation, high interest, no growth -- our present economic difficulties, did not emerge overnight. They have been accumulating throughout the past decade. They result from a conbimation of economic policies pursued during most of that time, and earlier.

During that decade, spending by the Federal Government exceeded its revenues by more than $100 billion. This accumulated budget deficit, financed largely through the commercial banking system, caused the money supply and bank credit to expand nearly 50 percent faster than the real output of goods and services. Obviously, the price level could do nothing but go up.

Stimulation of the economy through budget deficits and excessive expansion of money and credit, was combined with a futile effort to hold back inflation through wage and price controls, which not only didn't work but led to actual shortages.

I am sure that any attempt to renew those policies would inevitably make our situation much worse. I believe, however, that there are some measures that can bring about improvement. I am filing a statement that will explain my proposals in some detail. This statement includes availability of raw materials as this relates to imports. The oil, steel, and the aluminum industries are already confronted with problems in this area, problems that ultimately will affect every American industry and demand that an effective national materials policy be established. In my remaining time, let me highlight those measures which I feel can bring about improvement in our present situation.

First, a very sharp reduction in government spending is absolutely essential if we ever hope to bring inflation under control and return to a suitable growth path in our nation's output. Further, such a gross cutback would permit some tax relief for low income people who have suffered the most from rising prices of essential goods and services. We should provide this tax relief because of the direct benefits it offers to low income people.

It is equally urgent to eliminate budget deficits, which tax the poor with inflation.

Second, we should continue to constrain the growth of the money supply and bank credit below rates that have prevailed in recent years. Some easing of monetary policy is now in order to lessen the possibility of a credit crunch, but we ought to be very careful not to return to the inflationary money supply increases of the past two years. Inflation is commonly defined as "too much money chasing too few goods." That's precisely what is wrong with us today.

Third, the latter half of that definition is a real problem, and ways must be found to increase production of materials now in short supply, to meet our future as well as our current needs. Manufacturing industries and utilities desperately need capital to finance their ability to satisfy the demands of a growing population. Unless we can stimulate capital formation, there is no way that we can expand production sufficiently to overcome basic shortages, provide enough employment, improve our productivity, relieve upward price pressures, and maintain or raise our overall standard of living.

Finally, we should resist any urge to repeat our past mistake and reimpose mandatory wage-price controls. Not only have such controls never curbed inflation either at home or abroad, but they also have actually compounded the problem. Production distortions ultimately occur, shortages develop, and when government continues to pursue unwise expansionary policies, the ultimate result is the mess we are in right now. To some innocent, controls may sound like an easy solution to our nation's economic difficulties. But they are not.

There are no nostrums or miracle drugs for our ills. The path back to a non-inflationary, steady-growth economy will be difficult. It will take time and patience. It will require sacrifice by all segments of our economy. And, it certainly will be worth the effort.

SECRETARY DENT: Thank you, Mr. Harper.

As I mentioned, we will nominate the man from Eaton Corporation to be on deck, Mr. deWindt. At this time I call on Mr. Debutts of American Telephone and Telegraph.

MR. DEBUTTS: Thank you, Mr. Secretary.

MR. deBUTTS: Mr. Secretary, we in the telephone business are more accustomed to reminding than being reminded that "your three minutes are up." Nonetheless, I do appreciate the opportunity to make a brief statement.

I shall address myself principally to two modes of attack that seem to me crucial to the success of our country's battle against its twin economic foes, inflation and stagnation. The first calls for government action to encourage capital formation, the second for renewed business and labor initiative to enhance productivity.

The urgency of action to encourage capital formation has been dramatized by the President of the New York Stock Exchange in his forecast of a $650 billion "capital gap" or shortfall in savings to meet investment requirements over the next ten years.

But we don't have ten years to close that gap. The problem is an immediate one. Particularly is it so for the utilities - the power companies, the telephone companies, Bell and independent, that with transportation comprise the infrastructure of our economy.

If the utilities don't grow, the rest of the economy can't. Telephone companies, large and small, must act now to assure that - two years hence, five years hence - the plant will be in place to supply the essential services we are required by law to provide. We cannot "wait out" today's high capital costs.

Inflation affects utilities more severely than it does most other industries. The $10 billion the Bell System is spending for new construction this year would have cost us but a little more than $6 billion ten years ago.

And we must go into the market for these dollars in a period of intense competition for capital that has pushed interest costs for AAA securities above the ten percent level.

What seems to me most urgent is that the Administration and the Congress address themselves now to permanent measures that will encourage investors to invest and enhance industry's ability to attract and generate the capital it nees to build the production capacity that is needed to bring supply more in line with demand.

More specifically, investors would be encouraged to invest if tax rates and holding periods on capital gains and losses were liberalized. And investors would be encouraged to invest, I believe, were some sort of rollover provision enacted that would allow investors - as we do with the sale and purchase of residences - to defer payment of taxes on the gain from a sale of capital securities if the proceeds are reinvested within a relatively short period.

Also, it appears to me that exempting reinvested share owner dividends from taxes would provide a powerful incentive toward increased capital formation, at the same time providing a strong signal that public policy favors broad base of individual participation in the ownership enterprise.

I also urge attention to measures that would permit industry to meet more of its capital requirements from internal sources. Specifically, permitting utilities to apply the investment tax credit at the same level applicable to other industries would facilitate more rapid translation of new technology into service to the public. So, too, would measures to assure the adequacy of depreciation rates. In this connection, proposals to eliminate the Asset Depreciation Range system - ADR - seem to me precisely the wrong way to go. Rather does it seem to me that application of ADR to a wider range of capital assets would be appropriate.

Finally, on this point a fundamental: what most encourages investors to invest is the prospect of profit.

Business cannot meet its obligation to modernize and grow and create jobs - nor utilities fulfill their obligation to serve - unless that expectation is met. Regulation that thwarts that expectation - or failure of the public to recognize that adequate profits serve consumers as well as investors - will exacerbate the very ills we are gathered here to combat.

Mr. Secretary, the opportunity you have provided us to participate in these macroeconomic deliberations is a welcome one. It should not, however, distract us from those humbler microeconomic tasks we know best and that, if we do them well, will contribute more to stemming inflation than any of the proposals as to what government can do that may arise in the course of these meetings. It's time, I think, for all of us to do a better job of minding our own businesses, explicitly addressing our energies to the only way the real income of Americans can be improved and that is through increased productivity.

We say that - we believe it - but it seems to me that insufficient attention has been paid to dramatizing this fact to the American people.

Productivity improvements don't just happen; they are made to happen. They have been made to happen in my own business - in large measure as a consequence of very large capital investments that enable us to apply advanced technology to our plant. Today we are handling a volume of business twenty-eight percent higher than we did three years ago with zero increase in employees. But not all of that productivity improvement cost capital dollars. A goodly portion of it came from improved operating methods, improved organization, improved incentives - in short, by "working smarter." In this connection, while I recognize that we have scrupulously avoided the suggestion that there might be some merit in "working harder," I can't help but wonder what is really so wrong about that - including working harder at the job of management.

A final observation, Mr. Secretary:

As Chairman of the U.S. Industrial Payroll Savings Committee, I cannot neglect this opportunity to cite the role of Savings Bonds in the fight against inflation. As I hear the economists, one way to ease inflation is to ease demand and one way to ease demand is to divert income that is being currently spent for consumption into savings and - eventually - into investment in more productive facilities. What better way to do that than through Savings Bonds? What better way to enlist the entire working force of the United States in the war against inflation than a direct appeal from our President that in effect says if you'll do your part by investing in Savings Bonds some small portion of what you spend each week for consumption, we in government will exercise every means we know to

preserve the value of your savings and together we'll bring this monster to its knees.

Thank you very much.

SECRETARY DENT: We suggest Mr. Houghton be on deck.

At this time we call on Mr. Mandell deWindt, Eaton Corporation.

MR. deWINDT: Thank you, Mr. Chairman. All the complications aside, there are many. There is still the fact we are suffering from inflation because we have too much money chasing too many things, too much demand for too little supply.

Others are more qualified to comment on the demand situation. I therefore will speak to that. Rather I would like to speak briefly to how to improve the supply situation. I start with the assumption that whatever is done in other areas there can be no ultimate and satisfactory reduction of your inflationary problem unless American industry is able to produce more goods than the people are able to pay for and economy to sustain.

If that is a correct definition of the problem then the question is are there steps that can be taken in a reasonably short period of time that will permit industry to produce and expand capacity. The answer is yes. I would like to suggest four such steps.

First, the Government will extend recovery allowances for manufacture concern that investment increases capacity, particularly in short supply areas.

Secondly, the Government could suspend or modify the legal requirements of federal environmental or safety programs at the time those programs unduly expand the expansion of industrial capacity. I am not suggesting the nation should abandon those programs, but merely that we pursue them in such a way that we encouage rather than discourage investment required to expand capacity.

Third, the Government could modify the tax laws to encorage savings and maintenance of capital. Such modifications are essential. It is obvious to all the United States is in disperate need of additional capital formation.

Fourth, the tax law could be revised to recognize the inflation and inventory and other assets without requiring everyone to adopt complicated and costly accounting procedures. There are arguments against each of these suggestions and there are arguments not totally lacking in merit.

If, however, we want to lick inflation, we must expand capacity. If we are going to expand capacity, measures such as I suggest will be necessary. As always it comes down to a question of priorities.

Thank you very much.

SECRETARY DENT: Thank you, Mr. deWindt.

We would like to suggest that Mr. Robert Sarnoff on the left be ready to take over after the next presentation by Mr. James Houghton, Vice Chairman of the Board, Corning Glass Works.

MR. HOUGHTON: At the outset, I would like to thank you for inviting Corning Glass Works to be represented at this important meeting. We appreciate the desire of the Administration and Congress to solicit the views of the private sector on ways to deal with this most perplexing of our national problems -- inflation.

As a representative of industry, I would like to submit, for your consideration, our corporate voews on this subject -- as well as specific answers to the questions raised by the President in his letter of invitation to this meeting.

Because of time pressures, however, I would prefer to submit these expanded comments for your consideration as part of the written record and therefore would like to use these few minutes to make a few general comments.

First, I would touch but briefly on four specific recommendations for government action. I say briefly because I know that many representatives of business will be recommending the same course of action. Also these points are covered in my written submission.

1. In keeping with our belief that this problem is not solvable in the short run, we urge the government to set a firm course that will lead to a long term solution and not be whip-sawed by short term considerations.

2. We strongly endorse the concept of a balanced Federal budget--a budget held in balance <u>not</u> by an increase in taxation but by a planned restraint in expenditures.

3. We favor a continuation of a tight money policy in order to slow and steady the growth of the money supply (while recognizing that some moderation may be necessary periodically).

4. We recommend continued firm opposition to any formal wage and price controls. Our recent experience has proved, I think, they do not work.

5. Inflation is an international problem. With the strong interdependence of the world's economies it seems that one should not look only to a "national" solution but must also consider action steps that will lead concerned nations to attack this problem together.

I would now, for a minute, like to deal with a few points which relate to the country but more specifically with our company and industry.

The wealth of a country is created <u>only</u> by its

-- Natural resources
-- Technology
-- Productivity

- Natural Resources - You have them or you don't. If you have them you exploit them or you don't.

- Technology - Given a fixed natural resource base this is the real creator of wealth--I use technology here in the broadest sense--a cheaper hamburger, more efficient health care, as well as a better airplane or in the case of Corning, a new sophisticated product or material.

- Productivity - Given fixed resources and technology, the sheer human effort that can be translated into GNP.

Everything Else is moving wealth from place to place, from investor to purchaser, from haves to have-nots, etc., but not creating it.

We can distribute only what we have. We can have only what we extract from our ground or what we create.

Inflation results when we do not recognize this, and, as a nation try to distribute or spend more wealth than we have created.

This is precisely what we have been doing.

The U.S. Government should concern itself with the creation of real wealth as well as with the distribution of the wealth we now have.

By and large this means the stimulation of business, especially activities leading to increased technology and productivity, rather than the toleration of business as "a factor in the system" or, worse yet, looking upon business activities as something ignoble.

Now let me outline some specific actions for your consideration.

Natural Resources

My company, and I suspect other companies represented in this room, is delaying a number of investments we would like to

make because of our uncertainty regarding the future supply of various fuels and raw materials. We know the fuels and raw materials will be there. However, we do not know where they will be made available, whether or not we shall have access to them, and how much they will cost. We can never have perfect information on such matters. However, much of the current uncertainty is due to the lack of a clear-cut position by the U.S. and by local governments. As an example, will industry have access to natural gas or will it be exclusively reserved for residential heating? We can live with either situation, but we cannot live with vacillation between the two.

Technology

In the area of R&D, it is important that we improve the incentives for the development of new technologies. There are a variety of ways to do this by providing new incentives to research and development or by eliminating barriers to the timely introduction of new technologies. One of these barriers is our process for granting and adjudicating patents. As of now, it takes years to receive a patent for a new invention and, where there is a conflict, additional years to clarify the situation. These uncertainties undoubtedly lead to delays in the introduction of newly-developed technologies and the construction of new plants.

Productivity

In productivity as in technology, matters can be improved by providing new incentives or by removing existing barriers. An example of new incentives might be provided in the increased use of investment tax credits and faster write-offs for productive investments.

As for the concept of "removing barriers" I would use, as an example, pollution control:

> In my company, and I suspect in many of the other companies here, a large portion of our engineering and construction efforts, as well as our capital spending, is currently addressed to the installation of new equipment and procedures to meet environmental regulations.
>
> The programs for environmental improvement are important to us as human beings and should be pursued.

Nevertheless, there are certain barriers:

1. Pollution control investments (essentially non-productive) can be written off in five years but one can not use both accelerated depreciation and tax exempt financing. This should be reviewed.

2. Laws are different depending on the state. We have two plants producing exactly the same product in two different states. We're spending twice as much on control in one location as in the other. At one location we've satisfied the state authorities by making significant process changes. In the other plant, we're forced to install precipitators to solve the same problem. Some uniformity of standards (and solutions) is needed.

3. Our company has attempted to solve its pollution problems by <u>eliminating</u> pollution rather than just <u>reducing</u> it. And yet, under current law, favorable financing (industrial revenue bonds) is not allowed for new processes but only for solving existing problems.

My point here is that pollution control investments, as important as they are, must be recognized as creating no "value added". (In other words there is no increase in the productivity of our human and financial resources.) Therefore, the funds required should be allowed to pass through the system as quickly as possible so that they may be re-invested in productive capacity.

You have asked us to make suggestions as to Government actions. We've been very vocal in our suggestions about what "Government ought to do."

In closing, however, it seems to me that we in business must also be concentrating on what we can do to help this problem. We too must be asking questions such as:

How do we best use our human resources--so that we not only work harder, but smarter?

How can we invest more capital in productive capacity?

How can we wisely spend more in productive research and development?

How can we export more from this country in order to help our balance of payments?

As a company, I can tell you that we're working on these questions.

Thank you.

SECRETARY DENT: Thank you, Mr. Houghton. I suggest Mr. Seibert be on deck. We now cal l on mr. Robert Sarnoff, Chairman, RCA Corporation.

MR. SARNOFF: It is everybody's duty to cooperate in fighting inflation, but only the government has the power and ability to stop it at the source.

I feel there has been too much emphasis on depressing demand and not enough on increasing the supply of goods and services, removing capacity bottlenecks, and encouraging higher productivity throughout the economy. In my view, steps must be taken in three directions to bring the rate of inflation below 5 percent annually, thereby lowering long-term inflationary expectations and stimulating real growth.

First, there must be further moderation in the Government's restrictive monetary policy.

Second, this must be accompanied by fiscal conservatism, aimed at keeping a tight rein on Federal spending.

Finally, we must increase productivity by stimulating the supply of capital available for new plant and technology and by encouraging spending for research and development.

Monetary policy has been too volatile in the past. A more constant rate or growth in the supply of money at a more expansive rate than at present would encourage real growth and moderate inflationary expectations. The deflated narrowly-defined money supply (currency and demand deposits) is now 2 percent be-ow the long-term trend.

It should be allowed to regain that average level. This should help reduce the present double digit interest rate to a more reasonable but still restrictive level. This, in turn, should encouage greater investment in now productive capacity to relieve both present and future shortages.

Federal expenditures should be held to $300 billion in fiscal 1975 and every effort made to achieve a balanced Federal budget in fiscal 1976. This can be done by eliminating, delaying, or reducing a number of existing and proposed programs.

The erosion of capital supply can be reversed in the long-term by a reduction in the inflation rate, which should lower interest rates and help restore investor confidence in the equity market. In addition, I urge a lowering of the capital gains tax and establishment of a graduated scale of rates that would induce individual investors to turn over capital assets held over an extended time.

In order to sustain the productivity and innovation that have been America's historic sources of industrial strength, we must spur the development and application of new technology. I advocate for this purpose a system of tax incentives for research and development with emphasis on activities bearing directly on higher productivity.

We can conquer inflation by determined and positive action. But it cannot be done overnight, and the process will be painful. As we proceed, let us recognize that there will be hardships and inequities, and let us act to minimize them. I therefore urge that the government continue to undertake constructive public service products as the employer of last resort for those who, through loss of work, become casualties in the national war on inflation.

For the record, I am submitting a statement setting forth in greater detail some of the points I have made and additional actions I would propose.

SECRETARY DENT: Thank you, Mr. Sarnoff. I suggest Mr. Pilliod be on deck.

MR. SEIBERT: We agree with the Ford Administration that inflation is the most critical problem in the nation today. It is our firm belief that the present situation can best be changed only in all segments of the economy: business, labor, government, consumers, set aside their special interests and unite in a long-term common effort to significantly reduce the rate of inflation.

We believe that the struggle will be long term and that there is danger in taking extreme short-term measures in the hope of a quick solution to the problem. We do support current efforts to cut federal expenditures and to have reasonably restricted growth in the money supply.

If the rate of inflation slows, some lessening in current monetary tightness would be called for. We think it would be very unwise to impose mandatory wage and price clntrols. They have proven unproductive, inequitable and they tend to suppress increases in supply when increased supply is what is needed.

The pressing need is to establish a program which will gradually wind down the inflationary spiral and continue to resist the inflationary pressures we will surely face in the decade ahead. In our opinion, high priority should be given to increase capital formation in order to increase job opportunities and raise living standards.

Capital formation depends upon adequate incentive to prompt businessmen to make capital investments. It also depends upon capital being available at a reasonable cost.

Projections indicate that demands for capital in the years ahead will be enormous in this country and the world. A recent study by the New York Stock Exchange indicated that between 1974 and 1985, a shortfall of $650 billion between savings potential and capital demands is possible. Unless additional funds can be made available extreme pressure will be placed on the capital markets and it will be necessary to forego needed investment. This in turn would inhibit a desired increase in productive capacity and contribute to a long-term inflationary problem.

We feel increased savings and investment as well as improvements in productivty must be encouraged. One way to increase personal savings would be to make part of an individual's interest income from thrift institutions tax exempt. This action would encourage savings and would provide some relief to the depressed housing industry through increased savings deposits in thrift institutions. Other changes in tax laws could be made to prompt greater individual investment in securities.

To stimulate new business investment, we believe tax incentives are needed to insure that increases in capacity will be able to match increases in demand. Consideration should be given to increasing the investment tax credit and to shortening the depreciation periods for capital assets. In order to reduce the erosion of existing capital equipment, we feel that depreciation should be calculated on a more current basis than original cost. New investment would be stimulated through the additional funds available from tax savings.

We feel improvements in productivity need to be emphasized. Rising productivity increases supply, encourages investment

provides jobs and increases the competitiveness of our products in world markets. For example, increasing productivity in the service and governmental segments of our economy is an area where significant progress can be made. Improving productivity does not imply workers need to work harder. Improving productivity means that the system needs to be made more efficient.

All laws, regulations, restrictions, and operating procedures should be carefully scrutinized to evaluate their impact on productivity in this country. Where impediments to productivity are uncovered, efforts must be made to remove them. Whether legal restrictions or procedures currently benefit government, management, labor or the general public, the benefits must be weighed against the common objective of improving productivity.

* * * *

There have been many recent proposals calling for the government to institute some form of public works program to relieve unemployment resulting from the fight against inflation. While these proposals differ in many respects, they all seem to have the following characteristics; they

are aimed at our short-term unemployment problem, the jobs will be of a "make work" nature and government at the national, state or local level will run the entire program.

We strongly support a program to provide jobs for all Americans able to work. But, it is our belief that this should be an ongoing program, that the jobs must be meaningful and productive, and that government should only be involved to the extent that it takes to stimulate the private sector to create the necessary jobs. Projects which could help create the jobs we have in mind could include improvements in mass transportation systems and improving living conditions in economically underprivileged communities.

We believe the government should provide whatever incentives are necessary to make productive and socially beneficial projects attractive to the private sector. These probjects would enable an unemployed individual to regain his dignity and add to the productive output of the economy.

SECRETARY DENT: Thank you, Mr. Seibert. We suggest Mr. Schroeder be on deck.

We now call Mr. Pilliod.

MR. PILLIOD: I wholeheartedly support the opinions of those preceeding me in respect to fiscal responsibility. A balanced federal budget, monetary restraint, relaxation of regulatory controls, and positive measures to increase capital funding.

Recognizing there is no easy solution to the problems facing us, one must still gain confidence from the fact that we are here today discussing now the situation can be alleviated on a co-operative basis. It is also fortunate, in my opinion, that positive proposals are being made with optimistic anticipation of the results.

I am particularly enthusiastic that so many of the comments are directed toward fiscal responsibility. All of us learned long ago that we must learn to live within our means, and this must apply to corporations and Government as well as to individuals.

Unfortunately, events of the recent past would lead one to believe this basic truism has been forgotten. For example, many social programs, passed and still under consideration, seemingly ignore the necessity that must be fiscally as well as politically viable. These increasing benefit costs, together with sharply rising wates, are far outstripping increases, if any, in productivity. It would lead one to believe we are ignoring the fact that you cannot consume more than you produce.

The recently passed provision for a new congressional budgeting process is an encouraging step toward the basic objective of fiscal responsiblity and a balanced budget. We should encourage this recognition of the need to match expenditures with realistic revenues and should insist that the right to approve expenditures be balanced with the responsibility to provide funds and live within agreed budgetary limits.

Another theme worthy of continuing emphasis is to recognize the failure of our past efforts to regulate the economy. This is a broad problem, but perhaps it can be brought into perspective by a reminder of recent experience with wage and price controls. Not only were objectives not achieved, but in the case of my industry, rubber, non-approval of cost justified price increases resulted in an erosion of profits urgently needed to meet capital requirements. History has shown there is no substitute for the free and competitive market process. Lets return to it.

Government control of the monetary system is necessary, and I accept the need to continue the tight money policy with some easing and a reduction in the long-term growth rate. However, I am concerned with the importance of co-ordinating this with fluctuations in employment. If not properly handled, this could result in substantially increased unemployment and related additional government costs which could wipe out all gains and even exaggerate the problem we are facing today.

While a basically tight monetary policy is recommended, it should allow for sufficient flexability to adjust if rising unemployment demands it.

Increasing government regulations in many areas are requiring the diversion of capital funds from productive facilities expansion much needed to meet the supply-demand problem of inflation. I am referring to investment requirements related to mandatory product safeguards, environmental safeguards, and worker standards. While I strongly support these objectives, we must be certain that the programs are realistic and reasonable -- and we must provide business with appropriate means to minimize the adverse effect on both costs and capital requirements. Since expenditures of this nature do not provide profit-making productive facilities, but are required to meet social needs, consideration should be given to their treatment as expense for tax purposes as well as rescheduling the compliance dates so as to spread the requirement for capital over a longer period.

The need to encourage savings and provide incentives for capital formation and investment cannot be over emphasized. Particularly in the case of individuals faced with higher living costs than ever previously experienced, it is obvious that a savings and investment program cannot be effected without special tax incentives. The same applies to corporations, and I would urge early consideration of the recommended measures directed toward the objective.

Specifically, in reference to industry, existing depreciation rules should be liberalized so they more realistically relate to the highly increased costs of replacing production facilities. An added consideration is the basic fact that this needed revision in our tax laws has already been provided in many countries of the world where U.S. industry is facing its greatest competitive challenge.

Although our industry has no direct stake in the question of energy depletion allowances, we are large energy consumers, and like all industry, are deeply concerned over the U.S. ability to meet its capital requirements for energy. These have been estimated at over a trillion dollars through 1985. The oil and other energy depletion allowances should be retained at whatever level will ensure a return capable of attracting the necessary capital investment.

I also would not rule out the formation of a Government agency similar to the Reconstruction Finance Corporation formed during World War II to assist in the development of synthetic rubber. It was extremely effective and enabled the United States to become self sufficient in this essential raw material within a relatively short period. Perhaps such an approach would best serve our current needs in those areas demanding massive injections of capital, such as uranium enrichment, where a single installation calls for an investment of over a billion and a half dollars. It should be studied along with the Hausman Bill now pending in Congress.

Certainly energy self sufficiency must stand high on our list of priorities and we will not be able to rest comfortably until we are in a position to restore our destiny in this field in our own hands.

One final note. I would encourage early passage of the trade bill. American industry competes in a tough world with other companies whose governments provide foreign tax credits, investment allowances, export and added support to insure a worldwide acceptance of their productive output. This will intensify as the need to obtain foreign exchange coverage for costly oil imports increases. The trade bill now before the Senate will do much to increase the competitive status of our Government in dealing with these matters and it deserves our all-out support.

As I mentioned earlier, I am encouraged by the optimism heard here today, and I personally am also optimistic. We all recognize the many opportunities available to us--now our objective should be to take advantage of them as quickly as possible.

SECRETARY DENT: Thank you, Mr. Pilliod. I suggest Mr. Charles Smith step up on deck and at this time I call on Mr. Schroeder, Vice President, Graphic Arts International Union.

MR. SCHROEDER: Thank you, Mr. Secretary.

First of all I would like to raise an objection to high interest rates as an inflation control measure. By and large American business operates on borrowed money. Higher interest rates do not remove money from the economy. They simply move a greater proportion of it over to the money lenders. Taxes as an inflationary control measure can be imposed and removed at any given point. Higher interest rates supposedly imposed to stem inflation have a long-lasting effect best explained in home mortgage rates where the consumer is bound to 25 and 30-year terms.

Taxes can be imposed on non-essential items to discourage buying. That would not increase prices on essential items which affect the average worker. High interest rates have the effect of raising prices on everything. Speaking specifically on productivity, in the graphic arts industry, in the printing and publishing industry, while profits increased a total of 438 percent from 1961 to 1973 production worker payroll rose only 87 percent. This breaks down to an average annual 15.1 percent average annual increase in production worker payroll.

Now, the printing and publishing industry has a $34 billion value of shipments annually. The problems of solving inflation should not fall with undue hardship upon the lower and middle income segment of the population which is what high interest rates cause.

Recession and depression are solutions that fall heaviest on low income people and that must be avoided.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you very much, Mr. Schroeder.

We suggest Mrs. Esther Peterson be on deck and now call on Mr. Charles Smith, Chairman, SIFCO Industries.

Mr. Smith.

MR. SMITH: I speak today not only as Chairman of a small metal fabricating company in Cleveland, Ohio, but also as Chairman of the Board of the largest federation of business organizations in the world, the Chamber of Commerce of the United States.

The views I express are not only representative of my own point of view, but have stood the test of careful and thorough study and analysis by the appropriate committees and policy determining machinery of the National Chamber.

To cover the goals of this Conference in three minutes, it is necessary to limit my comments to conclusions without any attempt to substantiate the reasoning beyind them, but a supporting document has been submitted for the record. Taken inthe order of subjects enumerated by President Ford, our conclusions are as follows:

1. The economic condition of the Nation is serious, but the malady is not necessarily fatal. There is still time to solve the economic ills of the country if Congress and the Administration will reject political reasoning and start applying economic reasoning to economic problems.

There is a difficult request to make of those whose careers have largely been devoted to politics, but it is essential if we are to get out of our present difficult situation. In our analysis, business activity is generally high, but a credit crunch threatens to slow down activity generally as it already has done in specific industries such as housing.

The credit crunch is largely the result of heavy Federal Government borrowing to finance continuing large deficits which has monopolized an unduly large portion of the entire credit facilities of the country thereby drying up sources of credit for the private sector, and forcing up interest rates.

2. In looking at the causes of inflation it must be remembered that the foundations for our present excessively high rate of inflation go back many years.

I would like to identify the nubmer one cause of inflation first and then list some secondary causes. By far the most significant cause of inflation has been and continues to be large Federal deficits which have resulted in forcing an increase in the money supply at a long-term rate the substantailly exceeds increases in production of goods and services.

Congress and the Administration must recognize that there is no permanent solution to the inflationary spiral that does not require bringing our Federal budget into a balanced or surplus position most of the time. In the period since the close of the Korean War the budgets of the Federal Government -- surpluses as well as deficits -- have resulted in a cumulative deficit of over $140 billion. There is no way that such a huge total deficit could have been financed without sharply increasing the money supply and thereby diminishing the value, or the purchasing power of the dollar.

Of the secondary causes of inflation, perhaps the most important is the almost consistent deterioration over a long number of years of our nation's capital recovery and capital formation capability, largely as a result of the taxation policies of our Federal Government.

As a result of tax regulations that limit capital recovery and discourage capital formation it has been difficult and oft times impossible for American businesses to dind the financial resources to expand and modernize their facilities at a rate that would increase supply and reduce costs to the degree necessary to hold down inflationary pressures. Steps should be taken to reduce the tax burdens on capital that are inhibiting capital formulation and recovery and thereby discouraging expansion of productive resources.

Next on the list of causes of inflation must be the inflationary pressures brought about by monopoly action. Many decades ago we recognized that economic organizations holding monopoly or semi-monopoly positions can destroy the necessary functions of the free market.

Our existing legislation and our judicial system have done a good job of eliminating non-competitive practices in business and industry; nevertheless there are two areas where our present anti-trust laws have little or no effect. One of these ares we have little control over: OPEC (Organization of Petroleum Exporting Countries) has utilized its monopoly position to in effect levy a very substantial new tax on petroleum exports which has played a substantial role in quadrupling the price of crude over the last twelve months.

The other area where monopoly poswer is causing inflationary pressures lies within the jurisdiction of our government. One of the most significant economic factures in our national organized labor has specifically been granted monopoly power by our legislation.

Unions are not responsible for initiating the inflationary spiral that has taken hold of the economy, but the tremendous economic power that is available to organized labor as a result of legislation granting monopoly privileges to unions has enabled labor to substantially frustrate the efforts of the 1969-1971 period to bring inflation under control by conventional use of fiscal policy.

The cost of somebody's labor makes up more than 80 percent of the cost of most products or services. INflation cannot be brought under control if labor can continue to use its monopoly position to force this important cost factor up faster than productivity can increase.

Finally, another cause of inflation is the growing involvement of government in the day-to-day affairs of the economy. Government imposes huge uneconomic costs upon business through outmoded, unneeded and unduly complex orders, regulations and procedures of governmental agencies.

For example, Senator McIntyre of New Hampshire, who is studying the impact of government paperwork on business, calculates that the cost of processing such federal paperwork by business is almost $18 billion a year. He figures it cots government an equal amount.

Points 3, 4 and 5 on the agenda of this Conference have been covered in an extensive written report proposing 32 action areas where we can work together to lick inflation.

SECRETARY DENT: Thank you, Mr. Smith. I suggest after the next speaker we fly back to the right again to Mr. Horace Jones. At this time, I would like to call on Mrs. Esther Peterson.

MRS. PETERSON: I am Esther Peterson, Vice President for Consumer Programs, Giant Foods.

I am not an economist. I don't want to spend my four minutes proving it.

Rather, I would like to address myself to some of the points listed under the goals, one, clarifying the realities -- I am sure experts are collecting and examining the data and information needed to make sound judgments but I don't want us to forget the real realities that people are hurting. We would not be here if we did not know it.

I called top executives of our firm before I left and got these answers. It is an unbelievably difficult situation which requires drastic action. I hate to go to work knowing the price increases on my desk that I must order to be put into effect. It is terrible. To say nothing of the calls, the letters, the visible examples of hardships that we see daily in our marketplace. It is even affecting our collective bargaining.

We recently ended a strike where three unions accepted a three-year contract but one, the largest, refused, saying how can we expect, how can we accept a three-year contract. We don't know what is going to happen in one year. This is even if there was a cost of living increase and fair increases in addition.

One person said you can't trust the system. You can't trust anybody. Unfortunately, this is made only more difficult by the climate of distrust which permeates our society. Some assurance of equity must be given by President Ford in view of his pardoning of Nixon before the public could be informed fully as to the former President's role in the tragic coverup.

This unfortunate action has seriously impaired confidence and has raised doubts in many as to whether or not these meetings are more than window dressing. Are they for real? I think they can be for real? But we cannot underestimate the serious doubts many hold as to whether the President will give careful consideration to all viewpoints before making judgments.

Many ideas have been expressed today, many contrary and many opinions are expressed in other conferences. They must all be weighed and fairly weighed.

We say under goal two to identify the causes. This area has been plowed over and over so many times. I am sure of the complexity of the causes and because they are so complex there can be no simplistic answer or cure. As one of my professors at Brigham Young University used to say, "Avoid the easy answer; it is bound to be a phoney."

But, we must be willing to try new ways and new methods. I am sure that part of the mess we are in is in the hundreds and thousands of decisions made daily. Little pieces of factors that contribute to our problem. Our lobby at Joint, every day we meet many salesmen who want to sell us new products. Each week the buyers meet. Some products are added and some are rejected.

I am told by our buyers that over 80 percent of the new products fail. All this expense of development and promotion is paid for, I am sure, by adding it to the cost of other products -- more layers on layers -- so much so I wonder if we can afford this at this time.

Should we not begin to look at our own industries as well as to the Government to see what can be done to help the situation? Isn't bolt action needed by government and action by ourselves? Couldn't we start immediately by ourselves? Wasn't it Kennedy who said, "Ask not what your country can do for you."?

Goal four says that we must explore new and realistic approaches to combat inflation. Therefore, I want to propose something that I think is needed and realistic. There has been a lot of talk in the last few years about social accountability, social auditing, one might call it. It is being factored into the corporate structure in many places. Can't we draw on that experience and institute an inflation audit?

This would mean examining corporate policies in terms of product, product promotion, pricing, distribution, all the factors. Those industries which are not product oriented -- we have examined policies, for example, if it is a service industry or a retail industry but every element should be looked into -- products, productivity, any way is

that each person and firm can contribute to trying to lick this inflation monster.

We need a great debate going on all levels. What we would do is comparable in a way to the job that we did in the energy crisis, when we all got together to decide what could be done. It is going to be a bit harder to turn down inflation than to turn down our thermostats. But, using inflation audit policy, the programs that do not directly contribute to human needs should be cut. The measuring stick being does the expenditure contribute to inflation?

Under this audit, we could look at all of our practices. We would look at our budget, the defense budget could be analyzed, maybe we could get the pay dividend that we all talked about for such. We need to look at space explorations, at the subsidies in the total budget as is outlined, and we need to know the inflationary costs of all factors of all of that including the defense budget.

All of these programs could be looked at from the point of view what is its impact on inflation. Would cutting it bring hardship to those who are not in a position to bear such hardship?

It is a period of learning for all of us, from President Ford down. Many useful suggestions are being made at these conferences. Solutions are not easy. They take time. Action is what is needed and what I propose is an inflation audit is one thing we could get started on immediately. It would help create a climate for general support for other attacks on the problem. I hope we can give it a try. If we get a national spirit behind it, and examination of our individual as well as our corporate lives, it could have real impact. It would be tough but it would be worth it.

SECRETARY DENT: Thank you, Mrs. Peterson. You mentioned whether this is window dressing or not. I would like to commment we have organized the economists in our department to work through the presentations not only at this conference, but all other conferences to glean from these the best ideas that we can summarize to put before not only the final conference, but also before not only the final conference but also before the administrative groups in the Executive Branch and ultimately before the Congress.

We are deeply appreciative of the high quality of effort that has gone into all of the presentations this morning and assure you that this will go well beyond the window and right into the workshop.

I would like to nominate Mr Kirby to be on deck and at this time I call on Mr. Horace Jones, Chairman of Burlington Industry.

MR. JONES: Thank you, Mr. Secretary. I would like to say I think the problem of inflation is a very current and real one, a critical one and not one that will gradually fade away.

I will require all of us to put something into the pot. I find that I am in agreement with most of the things that have been enunciated this morning, particularly in reducing the federal expenditures and balancing the budget. Those of us who are constantly confronted with budgets realize at first they appear to be inflexible but aggressive and arbitrary action is often and most times required.

Secondly, I would like to emphasize we need additional incentives for new business incentives to increse productive capacity, particularly that which is directed toward productivity in business.

Thirdly, provide additional credits for business expenditures for environmental improvement which, while necessary are non-productive and increase costs.

We also need desperately to provide meaningful incentives for individuals to increase their savings, thereby aiding the savings institutions to finance the vital

housing industry which is on the verge of disaster today.

If these additional incentives and cost increases we require some increase in taxation, we should be willing to face that to balance our budget. Present Federal credit curbs should be eased moderately to offset the current inflationary psychology, but the basic policy of tight credit should remain as a discipline to avoide non-essential outlays.

I would urge that we get on with the task of approving international trade agreements to help us in our efforts to establish a favorable trade balance in this country.

Finally, we reject completely the concept of wage and price guidelines which have not worked in our industry.

Thank you very much.

SECRETARY DENT: Thank you, Mr. Jones. I would like to nominate on deck Mr. Reginald Jones and at this time call on Mr. William F. Kerby, Chairman, Dow Jones Comapny.

MR. KERBY: In addition to the damage which inflation is doing to the overall economy, it would appear that there are three major crisis areas. These are all vital segments of the economy where, unless speedy and effective action is taken, the damange may be so severe that the national well-being could be affected for years to come.

They are: The housing industry and the mechanism for financing that industry . The financial industry is in shambles and we stand in danger of seriously impairing the mechanism for capital formation.

We are embarked on "Project Independence" and yet the utility industry is eliminating or indefinitely postponing billions of dollars of new energy producing facilities because they leterally cannot be financed. Thus, we are in process of assuring a more critical energy shortage in the years ahead.

It would appear that the problem to be solved involves a sharp reduction in money market rates but so accomplished as not to fuel inflationary trends. To this end it is proposed that:

(Kerby suggestions - 2)

Government must consume a significantly smaller proportion of the national income. Not only must the Federal budget be balanced but there must be a surplus. To achieve this end these steps should be taken:

(1) The 1975 budget must be reduced by not less than $12,000,000,000. The 1976 budget must show a substantial surplus. No area of Governmental expenditures, no agency, no department should be regarded as exempt from mandatory budget cuts. Importantly, there must be a moratorium on new spending programs.

(2) Budget cuts should be coupled with a significant increase in personal income taxes. These increases cannot be concentrated in the upper income brackets alone, because there just isn't enough money there. I suggest a temporary surtax starting at the middle income level, say at $15,000 gross income.

Importantly, savings from budget cuts and the additional tax revenues must not be treated as funds available for expenditure; they must be used for reduction in the national debt.

As important but supplementary actions I suggest:

(1) A more realistic and more liberal treatment of depreciation.

(2) An increase in the investment credit allowance as applied to the utility industry.

(3) A reexamination and modification in the light of today's economic conditions of the innumerable governmental regulations which add to the cost of goods and services.

What would flow from the above-mentioned actions?

A budgetary surplus is standard medication for inflation.

Applying that reduction to debt retirement would have an immediate impact on money market rates.

The fact that the Federal Government was no longer requiring larger and larger amounts of financing would remove a competitor for financing from the capital markets easing the problem of the utilities, for example.

A realistic treatment of depreciation would vastly increase industry's cash flow and reduce industrial borrowing demands.

The elimination or modification of various governmental regulations which add to production and distribution costs needs no elaboration.

I believe there is no one who would argue that the medicine needed to restore the capital markets (the financial industry) to the essential healthy condition is a combination of lower money market rates and a declining rate of inflation.

SECRETARY DENT: Thank you very much, Mr. Kerby. We will suggest that Mr. Gilbride be on deck and now call on Mr. Reginald Jones.

MR. JONES: Inflation hurts everybody. Therefore, we believe that the approach must be one of mutual assistance-- where each sector of society looks to the good of the whole, and makes the necessary trade-offs to achieve a balanced solution that gets us out of our economic troubles as quickly and safely as possible.

To that end, we have five proposals:

Proposal one: Let's have a moderation of the tight monetary policy so that the real money supply-- in terms of purchasing power-- again begins gradually to expand. If you adjust for inflation, the real money supply has actually decreased 5 percent so far this year. That's twice as deep as the declines we had during the credit crunches of 1966 and 1969-70, and each of those was followed by a recession. If money supply can be eased somewhat, financial markets should recover in the next few months and capital spending-- the one bright spot in the economy-- will be able to continue. This would mean a stronger economy in 1975, which would strengthen federal tax revenues and keep unemployment from getting out of hand.

Proposal two: We must do all we can to cushion the effects of inflation on the people in the lower income brackets. We must see that prices are no higher than necessary. The tax structure should be examined in terms of equity as well as its impact on the economy. While we can't do much about past increases in the prices

of food, fuel, and materials, let's all recognize that the next big inflationary push will come from wage demands as wage-earners try to catch up. If these are excessive, the result would only be higher prices-- and from that, nobody wins.

Proposal three: Encourage investment in the modernization and expansion of our productive capacity. We must improve productivity, overcome the inflationary shortages in our basic industries, and assure a supply of energy that does not depend so much on imported oil. To assure continued capital investment, we need to strengthen our demoralized capital markets and improve industry's cash flow through higher investment credits and depreciation rates that recognize the effects of inflation.

Proposal four: Develop an International Code of Behavior with respect to shortage situations in oil, bauxite, and other critical commodities to prevent artifical shortages and destructive price increases that endanger the whole world economy. Let's recognize that the United States has a position of leverage in such negotiations because of its production capabilities in food, fertilizer, and high-technology products.

And proposal five: Really get control over government spending. No other measures will be effective unless we get that Federal budget under control. Tight money is no substitute for this urgent objective.

SECRETARY DENT: Thank you very much, Mr. Jones. We will ask Mr. Garfield to be on deck and now call on Mr. John Gilbride.

MR. GILBRIDE: Thank you.

Mr. Secretary, Members of the Congress, ladies and gentlemen: I agree generally with those statements urging that government expenditures be curtailed in those areas where possible without infringing on the safety and long range economic stability of the nation.

I think that rampaging inflation with all of its deleterious effects can only be brought under control if all concerned are prepared to "bite the bullet." In industry we have been required, by and large, to do so because the discipline of the marketplace is the controlling factor and in the long run it operates on all business enterprises large or small. These same disciplines do not operate on our lawmakers to the same degree. There are many statutes on the books, and, of course, I am not disagreeing with the objective, the ultimate cost of which to the taxpayer is unknown. Examples would be Social Security, Medicare, unemployment benefits, veterans' benefits of all types, retirement benefits for federal employees, and the list could go on and on. These programs are funded directly by tax money or borrowed funds, but the Congress has taken other actions which ultimately, in one fashion or another, are paid for by the taxpayer wearing his other hat as the consumer of manufactured goods. These actions take the form of government regulations on all levels such as safety requirements for automobiles which raise prices materially.

Congress has placed requirements on industry which involve the expenditure of huge sums of money and which have no effect with regard to increasing the productivity of the enterprise. The requirements of the Environmental Protection Act, of the Occupational Safety and Health Act, the inordinate increase in workmen's compensation costs are examples of cost additive requirements which do not improve productivity but in many cases actually impede it.

I sincerely believe what I said with respect to all of us biting the bullet but I also recognize the practical realities of our political system. Regardless of the political unpalatability, the Congress should reexamine the legislation I have mentioned and take affirmative action to change or amend the laws to keep the open ended outlays from growing too rapidly and in addition to be extremely wary about taking on new obligations which will become uncontrollable in the future.

I should like to refer briefly to one aspect of the dire effects of the inflationary spiral which to some greater or lesser extent affects all business but which in the business with which I am connected could reach serious proportions.

In the past seven or eight years in our industry it has become a way of life for all of us to contract at fixed prices for ship deliveries as much as three or four years into the future. Under normal economic conditions, this method of contracting presented no insuperable problems. Cost of major ship components was fixed by written agreements with proven manufacturers. The cost of labor, by rule of thumb 50 percent of the contract price, was fixed to the end of the union contract, and increases beyond that time could be estimated with a reasonable degree of accuracy. Overhead was capable of calculation to plus or minus a few percent.

Today, certain companies with whom we have fixed price contracts for major ship components have stated they will not honor at the specified price.

The cost of labor is no longer a fixed price for any period of time but becomes another unknown because contained in the union contracts is a cost of living provision which defies quantification at this time.

No one can determine what the overhead burden is going to be. The constantly mounting cost of complying with the new increasingly stringent safety standards of OSHA which are being promulgated almost on a daily basis, the overly strict environmental standards inhibiting production and requiring non-productive capital investment, the increasing cost of workmen's compensation coverage, the cost of borrowed money, continually skyrocketing, the desperation of federal, state and municipal tax gatherers for increased funds to meet their own rapidly accelerating costs of their governments and other similar pressures make it impossible to project future costs for any period at all, much less many years into the future. Presently because of these inflationary factors on all segments of the economy all the factors previously figured constant have become unknowns.

Accordingly, the hardships and inequities which adversely impinge upon the present-day economics of shipbuilding and other industries as well need to be effectively addressed. To this end, the following actions on the part of the Federal establishment, as seen from the view of this shipbuilder, could be beneficial:

- tight money policies should be relaxed to facilitate the raising of short and long term financing.

- materials and equipment for ship construction should be afforded appropriate priorities allocations to insure availability of basic material.

- regulatory requirements should be the subject of thorough cost/benefit analyses and modified where appropriate.

- existing shipbuilding contracts, with government blessing, should be reopened and renegotiated as to price with escalation.

- finally, on the broad front, the government must move positively to deal with the economic variables of inflation psychology: there shall be less airing of conflicting projections of inflation and more constructive and visible action.

Thank you.

SECRETARY DENT: Thank you, Mr. Gilbride. We will nominate Mr. Darman to be on deck. I now call on Mr. David C. Garfield, Vice Chairman, Ingersoll-Rand Corporation.

MR. GARFIELD: We believe the present deplorable rate of inflation has been caused by many factors working over a substantial period. The remedy, therefore, will have to be wide ranging and applied consistently over a number of years. No speedy and painless cure is possible.

The curb inflation we recommend the Federal Government come as close as possible to balancing the current budget and achieve a decisive surplus in fiscal 1976. This should be brought about primarily by reduction of expenditures. A balanced budget will trim inflationary increases in the money supply, and reduction of government demands on the capital markets will improve availability of much needed capital for industry.

We should maintain a tight money policy until moderation of the present excessive demand for credit has been achieved. However, the tight money policy must be prudently administered and eased to some degree at this time to meet specific economic needs.

We must channel a greater part of our gross national product away from current consumption and toward productive investment. Non-productive spending must be tempered and savings encouraged.

For example, this may mean that we cannot have as many recreational vehicles and that more railway coal cars will be built in their stead. This type of thing is what is meant by consumer belt-tightening which we all talk about, but which has not occurred as yet in an important way.

We hope consideration will be given to more favorable taxation of interest and dividends as a means of increasing savings.

The concept of increasing savings goes hand in glove with increasing investment. More investment is needed to build new capacity for goods now in short supply, and this will relieve price pressures caused by shortages. Investment in modern, more efficient productive equipment will enable production at lower cost. Producers can be encouraged and aided in making the necessary investments by increasing rapid depreciation write-offs and enlarging and broadening the investment tax credit.

According to a recent statement by Secretary of the Treasury Simon; the effective corporate tax rate has increased from 43 percent in 1965 to 59 percent last year. This is after elimination of the effects of inflation on inventory values and other inflationary adjustments. Under these circumstances, any attempt to increase the corporate tax rate is flirting with disaster.

Finally, wage and price controls have been shown to be a band-aid approach that does nothing to correct the fundamental problem. We are strongly opposed to their reimposition.

Thank you.

SECRETARY DENT: Thank you very much, Mr. Garfield.

I would like to nominate Mr. Malcolm Baldrige to be on deck and call on Mr. Morton H. Darman, President, Top Company.

MR. DARMAN: Thank you, Mr. Secretary.

As head of a modest textile manufacturing company, I would like at the outset to associate myself with the remarks of Mr. Horace Jones of Burlington, who addressed the meeting earlier.

I summarizing the paper which I have made available to the staff in advance of this presentation, I would like to state very briefly that we support the objective of a $300 billion ceiling on Federal spending in fiscal 1975 and we strongly urge a balanced budget in fiscal 1976.

In the textile industry there is a pressing need for legislation, to shorten the tax write-off period for machinery and equipment, to assist in financing occupational safety and health administration and environmental protective administration, health safety and polution abatement projection, and to improve cost recovery allowances for industrial buildings.

In this connection, our profits and I suspect all of your profits are overstated to the extent that our present capital recovery reflects a depreciation schedule which relates to original cost and largely ignores replacement costs.

In addition, I would support the observations previously made that something needs to be done and promptly to reopen capital markets to new equity investments.

I would like to associate myself with my neighbor, Mr. Debutts' comment, on a rollover concept with respect to stock market investments. I think it has much to commend it. It had not occurred to me until I came to the meeting this morning.

With respect to monetary policy, and here the House seems to be divided, I would align myself with the point of view that says current Federal reserve monetary policy should be relaxed to some degree in the immediate future. It is my belief the Fed has been asked to bear too heavy a share of the burden of fighting inflation in and of itself.

With respect to Government regulations, we strongly oppose wage and price controls. They just have not worked, and we feel that guidelines would have a similar counter productive effect.

We are finding today that more and more of our capital is being diverted from investment in new plants and equipment which would increase productivity, to environmental protection devices. This is not to say that preserving our environment, protecting our workers and the consuming public is not important and should not go forward.

These objectives are certainly important and we are in agreement that there are needs to be met in all these areas.

The point is there must be an appropriate social and economic balance. Too often, it appears to us our regulatory agencies lean heavily toward the former at the unbearable expense of the latter. This results in less opportunity to expand productivity capacity and hampers industry ability to increase job opportunities.

With respect to raw materials available, we in the textile industry have an encouraging note to sound. The prospects for adequate fiber supplies have improved in 1974. In the immediate past, wide fluctuations in raw cotton and wool prices for example have resulted in very severe inflationary impact on textile practices.

It would appear that this pressure is in the process of abating, provided I should add that adequate steps are taken to encourage the continuation of production of an adequate supply of textile fibers.

From my point of view, probably the greatest area of short-term opportunity for a tax on inflation lies in the proper roll-back of foreign crude oil prices. We recognize the solution to this problem involves delicate international negotiations but it is my hope that our Government, through such negotiations, can achieve a more equitable price for foreign crude oil to the end that this lower price will be translated in a reduction in energy costs not just for industry but the entire public that suffers.

We in industry have had a wide energy production program and despite this, our monthly energy costs in absolute dollars continue to rise. This is true as well when one examines the home heating, light and gasoline costs of those who work for us and all energy consuming Americans.

Finally, we believe it is basic to the fight against inflation to establish common objectives and policies to generate the broadest possible support. That is easy to say, but how do you accomplish it.

In our judgment, the way to establish priorities with the broadest possible public support is for both the Administration and the Congress to adopt as policy the objective of a balanced Federal budget.

If when individual actions are contemplated and legislation is under consideration, there is the obligation not merely to pass the legislation, but to fund it. This will do more in my opinion than anything else equitably to resolve the question of that are the proper national priorities.

We have suggested some things which will take away rcceipts. We are prepared to pay our fair share to blaance the budget. Thank you, Mr. Secretary.

SECRETARY DENT: Thank you very much, Mr. Darman. We will nominate Mr. Broyhill to be on deck and call on Mr. Baldridge at this time.

MR. BALDRIDGE: Thank you, Mr. Secretary. Mr. Secretary, let us face the fact that inflation's roots are political as well as economical. It is well to have some talks of inflation to get a reasonable degree of agreement on solutions; but business, labor, farmers, and consumers can not solve the problem if government policies are not supportive. This is particularly true because the fear of future inflation causes as much trouble as the fact of present inflation.

Therefore, unless the President and Congress have the political courage to lead the fight instead of just watching it, we are in for real trouble. Unfortunately, there is no way to slow inflation without some attendant pain which is politically unpopular and so far has been unacceptable to political leaders. Yet, the American people have always been willing to sacrifice if they believed the cause was good and, most important, if they perceived everyone to be sacreficing equally.

The President should take the lead in the press and on television in explaining the problems caused by inflation and his final program to slow it down. He should muster support for two years of belt tightening programs spread as equitably as possible. He should lead the way by cutting the Federal Budget to under $300 billion and asking all State Governors to act proportionately and immediately on their budget recommendations.

I consider this absolutely necessary; he should explain the measures to be taken to ameliorate the short-term burdens on those who are hurt disporportionately by an anti-inflation drive. In equalizing the burden, there is no place for windfall profits when unemployment is going up.

To keep the country united behind this two-year program, the President should recommend instituting a public employment program to help the enemployed, tax relief for those with incomes below $12,000, tax exemption for savings deposits up to a reasonable amount, and temporary excess profit taxes on any windfall profits or any other like measures necessary to spread the burden as evenly as possible; otherwise, there would be no way to keep a broad enough base of political support for a real anti-inflation fight lasting two years, as it must.

Economists can advise, but the management of inflation is too important to be left to any one group. Leadership begins at the top by the actual example of the President and Congress first before it can be creditable elsewhere.

The recent failure of Congress to defer federal pay raises at the President's request indicates a real need for him to muster more support on the inflation issue by all the considerable means at his command or it will be politics as usual and increasing inflation as usual until we run right into a full-fledged crisis. Thank you.

SECRETARY DENT: Thank you very much, Mr. Baldridge.

As I mentioned, Mr. Broyhill will be on deck. Coffee wil l be available in the Fort Duquesne Room. We would like to resume at 10:50, twenty minutes from now. As we start, we will ask for suggestions as to the progress of the meeting so if there are ideas you have as to how we might better perfect it, I would like to hear from you.

We will now adjourn the first session and resume in twenty minutes.

SECRETARY DENT: Ladies and gentlemen, the Conference will resume.

I suggest that we call on Mr. Paul Broyhill, President of Broyhill Industries, after designating Mr. Robinson Barker as next following Mr. Broyhill.

(Broyhill statement follows:)

SECRETARY DENT: Thank you, Mr. Broyhill.

We suggest that Mr. Burnham step up in the pinch-hitter's box. We call on Mr. Robinson Barker, Chairman of PPG Industries.

MR. BARKER: Thank you very much, Mr. Secretary.

(Barker statement follows:

MR. BARKER: In addressing this subject it is virtually impossible to avoid saying things that have already been said many times. Yet our objective need not be originality. As in the case of effective advertising, repetition of a few good ideas should make a desirable impact.

First, I would like to stress three points which I consider crucial:

1. As has been said many times, the federal budget for the current and coming fiscal years should be balanced. The present objective should be an amount under $300 billion.

2. Capital formation needs special attention.

The most pressing problem facing industry today is how to pay for the large expansions of capacity needed to keep pace with soaring demands, and at the same time meet our commitment to a cleaner environment.

One way government can help is through tax incentives. Specifically I recommend substantial increases in the investment tax credit and in depreciation allowances. To provide individual investment incentives the capital gains tax should be revised.

3. In addition to encouraging capital formation, consumers must be motivated to save more money. This should be accomplished by stimulating the flow of funds into thrift institutions by increasing the ceiling on interest rates. Also we should increase the rate paid on government savings bonds.

Without implying any order of priority, I would like to touch on a few other suggestions, most of which have been aired many times before:

1. Wage and price controls have proven to be ineffective, indeed counterproductive, and should not be reimposed.

2. A general policy of tight money should be maintained, but some slight easing by the Federal Reserve might be timely in order to avoid the present danger of over-kill.

3. In pursuit of the laudable objectives of safety and a cleaner environment, many costly non-productive regulations have been imposed on industry and individuals. A detailed re-examination of such requirements should be undertaken at once, and those should be relaxed and postponed where costs are excessive relative to benefits. For example, in the generation of electric power we may have to permit greater latitude on pollution controls involving the burning of coal and the installation of nuclear units.

4. The State Department and other appropriate agencies, both private and public, must try to convince the members of OPEC that crude oil price reductions are in their long range best interests as well as ours. At the same time, we must get on with "project independence" in the domestic development not only of energy but also of other necessary raw materials.

5. We must increase the productivity of all segments of our economy, public and private. The administration of unemployment compensation and certain welfare payments often provides the incentive not to work, not to be productive. Without penalizing the needy we must make more efficient use of these expenditures. I recognize that some of the anti-inflationary moves that have been

proposed are likely to cause increased unemployment and that government-sponsored public works projects may be required. Industry should volunteer the services of technical and managerial talent to help guide these temporary efforts.

6. Finally, the President, his Administration and the Congress must exert the leadership to bring about certain changes in public attitudes toward our economy. It is not invincible. We are not blessed with limitless riches. Tradeoffs are necessary between quality of life and standard of living. We can't do everything at once, and investments that multiply wealth are far better than politically inspired schemes to divide it. Instead of carping, and urging still more anti-business legislation, the public and public officials should cheer when industry earns the level of returns that are required to attract capital, and thereby to develop the technology, resources and productive capacity necessary to keep this economy growing without runaway inflation.

Thank you [illegible]

SECRETARY DENT: Thank you, Mr. Barker.

We nominate Mr. Warren Boyce to be second in line and now call on Mr. Donald Burnham of Westinghouse.

(Burnham statement follows:)

I welcome the opportunity to participate in this conference.

Others have talked about our fiscal and monetary problems, plus the difficulty in raising the tremendous amounts of capital required by a growing economy. I fully subscribe to the importance of defining and correcting these imbalances here and -- indeed, around the world.

But I want to limit my remarks to one phase of the complex subject of inflation. That is the basic importance of productivity improvement.

Productivity improvement is important to all of us because we can have only what we produce, no matter what happens to prices or wages. The gains in real wages are all due to productivity improvement. By lessening long-term inflationary pressures through productivity improvement, we can help to reverse the current erosion of real incomes and living standards.

Productivity is the amount of goods or services produced by an individual in a given period. Improvement comes about when the individual produces more in the same amount of time. Improving a person's productivity doesn't mean asking him to work harder -- just smarter.

The most dramatic example of productivity improvement is in agriculture in the United States. Today, only a little over four per cent of the work force is needed to feed all the rest of us. In 1870 the figure was 50 per cent.

The history of American industry is also a story of productivity improvement, but our progress has slowed down. Great opportunities for productivity improvement lies with services, both public and private,

where most of American workers are now employed and where productivity efforts so far have hardly scratched the surface.

Our country should undertake a program to promote productivity improvement on a scale comparable to the national effort in agriculture that began a century ago.

Government leadership should involve three responsibilities:

1. Public Understanding -- explaining to the public how important productivity improvement is to their economic well being.
2. Removal of Obstacles -- a concerted effort to get the unions and management and regulatory agencies to remove restrictions to use of more productive methods and equipment and to eliminate control of output.
3. Application of Incentives -- more time, money and promotional effort applied to the positive encouragement of productivity improvement than we have put into any economic program.

   It should involve more tax incentives for investment in productive equipment; analysis of productivity effect of all major government actions; internal study and improvement of government's own productivity; incentives for government contractors to improve their productivity; funds for retraining workers whose jobs change; sponsoring of research in productivity improvement; and a revitalization of the Commission on Productivity.

The urgent need for productivity improvement deserves a high national priority in our fight against inflation.

SECRETARY DENT: Thank you very much, Mr. Burnham.

We nominate Mrs. Mary Wells Lawrence and at the present time call on Mr. Warren Boyce, President of Microbac Labs.

MR. BOYCE: Thank you, Mr. Secretary.

As President of Microbac Laboratories, a small corporation, I feel particularly honored to be invited to make a presentation at this Conference.

I also speak for some 600 member companies of the smaller manufacturers council employing over 60,000 people and with sales volume of over $1 billion.

Further consider that small businesses account for 60 percent of the nation's employment and greater than 40 percent of its GNP, and this is our constituency.

In defining this current inflation, one important input is that supply is not keeping pace with demand. This matter of supply and materials shortages is particularly hard on small business which is at the low end of the totem pole. There is evidence on the Congressional Record to show that the small businessman has actually been hurt more than the consumer in this period.

With regard to fiscal policy, on the expenditure side, while we in small business applaud the concept of holding federal expenditure at a level of $300 billion, we recommend great caution in applying cuts because what may from the point of view of total expenditure seem to be small cuts, may have a disproportionally severe effect on certain lim ited sectors.

I can lose credibility very quickly at this juncture by making partisan reference to the Small Business Administration, but the case is so self-evident as to deny exclusion. Under a revitalized SBA, productivity is an essential factor in the granting of loans. A cut in such funds would cause a serious setback in a sector of business that is still capable of showing a marked improvement in productivity, both in human productivity and capital intensive productivity.

On the tax side, we have the serious problem of cash flow, so critical to small business. Phantom profits, inflated by highly valued inventories result in high taxation which in turn depletes the cash flow. The danger of this trend, along with the failure to depreciate capital

equipment with a mind to replacement cost, is a gradually obsolescing company.

We urge consideration of tax relief in the form of an increase of the surcharge allowance level form the $25,000 of twenty years ago to $100,000, to allow smaller businesses to reinvest in themselves and where appropriate to move towards capital intensive, higher productivity operation.

Reference has already been made to the potential benefit of the investment tax credit. Insofar as monetary policy is concerned, the tight money period was correctly as severe on smaller business as on larger corporations; this in spit of the two-tier interest rate, which essentially places smaller business on an equal footing with its larger partners, given its limited access to alternative monetary resources and its far greater volnerability. We conclude, therefore, that the two-tiered system has been beneficial and should be continued.

Government policies such as wage-price guidelines and other controls worked most severely, if ironically, against the exempt small company which nevertheless had a union. We oppose exemptions from controls meant particularly aggressive union bargaining, meanwhile it was extremely difficult for such small enterprises to increase prices during the economic stabilization period, because of the justifiable reluctance of larger companies to accept price increases.

Smaller companies with unions should not at any future time be excluded from controls.

The influence of local and state legislation is particularly important at the moment because so often state controlled loans are tied to levels of increased employment and consequently to labor-intensive operations.

It is particularly severe in Western Pennsylvania where the trend is towards high technology "spin-offs" and away from labor-intensive operations. This need not cause the unions anxiety because in the long run it will mean increased employment. But it is very important that smaller business should not be forced always to start from a position of weakness and low productivity. We strongly recommend that equal loan treatment should be granted to those business ventures showing a capability of high productivity.

In the area of materials shortage, the smaller companies have clearly been very hard hit as in the matter of interpretations of the new environmental protection laws.

In conclusion, I hope that the importance I attach to high productivity is clearly noted. This may necessitate an intensive education program under the guidance of the SBA, the Department of Commerce, and perhaps through organizations like SMC.

Smaller business may well be more accessible to higher productivity than more developed in industry. It is worth the endeavor to try.

Thank you.

SECRETARY DENT: Thank you very much, indeed, Mr. Boyce.

I would like to nominate Mr. Mansager for the speaker following Chairman Mary Wells Lawrence of Wells, Rich, Green, Inc.

MRS. LAWRENCE: Thank you, Secretary Dent.

I must say I feel like the woman who suddenly found herself at the Last Supper.

One of the stimulating aspects of the advertising business is the view you get by working with a wide variety of businesses, including government, which is the biggest business of them all.

It has become clear that the businesses that stay very lean and spend money only on essentials are always in good shape. The business of government could be a lot leaner if spending were kept to essentials.

As Mr. Scott said, between 1960 and 1974 federal spending increased 191 percent. Functions other than defense grew 309 percent and now include duties such as niggling over where in an advertisement the surgeon general's warning should be located, and duties such as deciding whether or not people may venture from the United States to attend a convention.

A lot of money is spent in the alleged cause of the consumer, the taxpayer and the voter in social programs that they may not want to pay for. You are talking to many impressive experts in these meetings but most of us are bound to have strong interests.

It would be good to find a way to hear from the people at large and let them hear each other about what they do and do not want you to do with their money in the future.

No matter what programs you create you will need the support and cooperation of the people to be successful. All the research that we do in my business suggests that at this time the people do not think anyone in government is listening to them and, in fact, that government -- Republicans and Democrats -- is on a completely different wave length.

They seem to believe that at a time when their money is tight government is spending their money wastefully on a lot of non essentials.

I have seen signs of great frustration which could be damaging to the very best of plans. And, I suggest you find a fresh, new way to hear directly from the people -- perhaps in a preference vote of some type what programs do they consider essential and want their money spent on and what programs are not essential in their view.

I would just like to comment that as government spending and power has grown it seems to be in exact proportion to the squooshing of business by government.

Regulatory fever in Washington has created doubt in the future and some of it is regulation for the sake of regulation. Few industries are as willing to innovate as they were for the truth about new products is that fewer new products are being developed -- which will have an effect on the future.

Some countries' first priority is to help their businesses thrive so that there will be jobs and success in the world market.

Sitting aside watching the businesses I have dealt with for 26 years it seems almost as though government here is anti-business.

Corporations pay only 15 percent of the taxes directly but over 83 percent of the $200 billion government is spending is generated through corporate taxes, taxes paid by employed people, social insurance and other business taxes.

Sitting on the side line it appears to me you are killing the goose that used to lay those golden eggs. It is possible that as the root of inflation and loss of productivity and the current loss of satisfactions is that there is too much government for people to pay for and for a health business climate in which people can work and progress.

Thank you.

SECRETARY DENT: Thank you very much indeed, Mrs. Lawrence.

We nominate Mr. Marriott as the second speaker and at this time recognize Mr. Felix Mansager, Chairman of the Hoover Company.

MR. MANSAGER: Thank you, Mr. Secretary.

(Mansager's statement follows:)

In the time alloted, I hardly have time to go into a any subject in depth--so, of necessity, what I have to say will be in the form of short statements.

I think everyone should be concerned with the fact that in 21 out of the last 30 years our government has operated on a deficit basis resulting in an ever-increasing national debt which must be financed.

This has been one of the major elements in the inflationary spiral which we are now experiencing.

This financing incurs heavy interest costs and other related administrative expenses which in and of themselves have become important multi-billion dollar budget items. Interest alone is $31 billion.

I think we all agree that a $481.5 billion gross national debt is an astronomical figure -- especially when we realize that the increase was $108 billion in just 5 years.

Certainly it would appear to be sound financial policy to try to prevent any further growth in the debt.

Balanced budgets would make this possible. Budget surpluses would permit debt reduction. This would return money to the private sector and reduce pressures on the money markets.

A balanced budget would have a tremendous force in restoring confidence at home and abroad.

The U.S. dollar would be measurably strengthened and I have just returned from two weeks of business meetings in Europe where I have heard that statement repeatedly emphasized.

Broadly speaking, the government should be committed to a continuous review to insure elimination of unnecessary activities and projects.

It should leave as much as possible to local government and the private sector.

Just a quick word on taxation, with the high rate of inflation which we are now experiencing -- this is certainly not the time to suggest that there should be a net reduction in Federal taxation.

I do not think anyone will disagree with me when I say that in recent years we have encouraged the Federal government to steadily enlarge on its activities and special projects -- but we have not had the courage to demand that the government affect our own pocketbooks and make us pay currently for these projects.

Instead, we have subscribed to the easier course of letting the government pay through financing its vast budget deficiencies. So the taxes we did not pay earlier we are now paying through inflation. As a result, taxpayers are finding themselves paying more taxes -- many are in higher tax brackets and with after-tax dollars that are worth less than in prior years.

Probably the hardest hit by this is the great American middle-class on which the success of the economy is so largely dependent. As proved during the period when wage and price controls were in effect, I agree that they work only for a short period at best. The dislocations caused by controls on the economy tend to worsen the situation that they were intended to alleviate.

Private incentives are more workable in that they allow solutions to be fit to the particular business or problem. Important in this is a commitment from both business and labor to act in an unselfish manner.

In conclusion, in my view the most important consideration at this time is that we continue the present tight monetary policy complemented by significat reduction in Federal spending.

SECRETARY DENT: Thank you, Mr. Mansager.

We nominate Mr. Manford Lee and at this time call on Mr. Willard Marriott, Chairman of the Marriott Corporation.

MR. MARRIOTT: Thank you, Mr. Secretary.

(Marriott's statement follows:)

MR. MARRIOTT:

Thank you Secretary Dent for the opportunity to share some of our views about the serious problems we face in dealing with inflation. We at the Marriott Corporation have no "quick fix" solutions to our problems, nor do we believe it practicable to seek such kinds of solutions.

As we see it, the kind of inflation we face is different than in the past. It stems from a variety of causes, the most important of which, in our opinion, being continued government deficit financing and spending which in the last decade has seen us spend approximately $120 billion more than we have raised in taxes. Other causes are important too, however, we believe that in treating all these causes the government's basic policy of demand management should be reviewed and redirected in those areas which increase production and the supply of goods and services. We believe, as a matter of public policy, that our national interest will be best served if a balanced federal budget or surplus is aggressively sought in both fiscal '75 and '76. In this regard, we see a requirement to take a hard look at givernment expenditures, reduce them where feasible and practice fiscal restraint.

We believe there is an obvious necessity to attack worldwide inflation by pursuing a policy to increase supply rather than attempting to "fine tune" the economy and artificially manipulate demand. We believe the productive capacity of our economy is up to the task if given the necessary freedom of action to produce more. The law of supply and demand will work if we give it a chance and some help. To facilitate increased production,

We would advise adopting a variable investment tax-credit based on the criticality of an industry and its present situation. Currently, there seems to be no single magic number for an investment tax credit which is suitable for all industries. For example, one industry may require an investment tax credit of 15% while another only 10% in order to expand its product and make new jobs. Similarly, accelerated depreciation should be authorized to encourage the replacement of energy inefficient equipment with new efficient equipment.

Like others, we believe our national credit policy should be adapted to meet the present situation, and that low money rates be provided to expand facilities and increase production. At today's current interest rates there is no way for business and industry to maintain and expand capital equipment, and profits are inadequate to generate sufficient cash flows to meet those investment requirements and direct more funds into other productive purposes. For example, to help solve the current capital crisis, selective control over consumer credit can be used to take some of the steam out of the current inflation and free some of those funds for productive investment and job creating purposes.

We believe the entire area of government regulation needs to be overhauled in light of the present situation. Regulations which restrict production and competition need to be revised if we are to expand our supply of goods and survive. In this area the environmental protection requirements must be squared with our need to survive economically. And we should ignore the temptation to reinstitute wage-price controls.

We support President Ford's initiative in achieving economic unity with the rest of the world and especially in pursuing international monetary stability. Our view is that it would be unwise to pursue a go-it-alone international economic policy.

Our advice is simple. We believe the way out of our difficulties is to use the power of government to remove the shackles which restrain the capacity of business and industry to produce more, and to facilitate the channeling of credit into its most productive avenues.

Also, we conclude that just as business and industry must meet its responsibilities in our fight on inflation, so must labor. There can be no success in our fight if wages and wage increases are paid with no regard to the need for increased productivity. Wage rates must bear a greater relationship to economic reality. We cannot consume that which we can not afford to produce.

In summary, our present situation is a result of many factors, operating over a period of time, and the solution to our difficulty lies in our willingness to accept the dictates of a free -- albeit imperfect-market economy and do what is necessary to insure its continued orderly expansion and growth.

SECRETARY DENT: Thank you, Mr. Marriott.

We nominate Mr. Rockwell and now call on Mr. Manford Lee, Chairman of the V.F. Corporation.

MR. LEE: Mr. Dent, Members of Congress, I think and hope out of these conferences can come a bitpartisan economic policy that can and will be good for this country. We need that badly. What is good for the country is good for all of us.

I would suggest we have a morale problem in this country which is very bad, which is the sort of thing in a manufacturing plant when morale is down, production is low.

It would be a good thing for the Congress of the United States to vote a restriction upon themselves that they will not pay out more money or spend more money than they take in. If they want the rest of the world to economize, they should show some signs of responsibility. I think they should call on the Executive Branch of the government to review all programs, reevaluate, eliminate duplication and establish priorities.

The real problem as I see it is that our costs are too high. We are paying too much for what we produce. There are a few ways of lowering costs, more production, higher technology, new factories and new plants and equipment. But there is one thing that we could do now. We can start on this tomorrow morning. I would urge the President of the United States to call upon all of us each day to produce a little more a little better than we are expected to do.

That is not going to hurt any of us and we could start on that immediately. I do not agree that high interest rates are non-inflationary. It has been my observation these rises are passed on. There is some credit restraint through high interest. We need to expand our productive market. Our capital market is in a shambles and we must find a way to fix that.

SECRETARY DENT: Thank you very much.

We nominate Mr. Shipley and call upon Mr. Willard F. Rockwell, Jr.

(Rockwell statement follows:)

Several previous speakers have included improved productivity as one of the means of controlling inflation, and I would like to elaborate on that subject.

Charls E. Walker, former Assistant Secretary of the Treasury, in his Washington Economic Report for August 21, 1974, which was an open letter to the President stated he wished the President would use:

> ""Bully Pulpit" of the Presidency to raise the level of economic understanding of the American electorate. Appropriate lessons include: 1 There is no such thing as a "free lunch"; 2 A full day's work for a full day's pay makes everybody better off; 3 To consume more, we must produce more. Simple truisms? Yes. Widely understood by the American people? No."

In my own Company we set up Productivity Task Force about a year ago. A questionnaire was sent to every productivity center in our Company of 140,000 employees. One of the results of the survey conducted by this Task Force was that their research indicated that neither hourly employees nor - surprisingly - middle management believe that employees, the company or the country as a whole can benefit from productivity improvement. Needless to say, we set about designing a corporate-wide motivational communications program - the theme being "Beat the Competition". Now that doesn't mean just our competitors around this table but the competitors of the working man for his job - in Japan, Germany, France, Britain, or Latin America.

So I urge that this Conference to study and report on Productivity through a re-invigoration of the National Commission on Productivity which was another recommendation of Charls Walker, and the creation of a Productivity Center as recommended by Jackson Grayson - head of Cost of Living Council, but with the official backing of industry, labor, and government. Without the active backing and support of all three, results will probably be negligible, but with a concerted effort by all three - not only in the areas of manufacturers and processors - but in all fields, such as agriculture, distribution and service industries, the attack on inflation could be formidable!

SECRETARY DENT: We nominate Mr. Smith and call upon Mr. James R. Shepley, President of Time, Inc.

MR. SHEPLEY: Mr. Secretary, gentlemen, Mrs. Lawrence, Mrs. Peterson, it has been suggested here this morning that it is highly urgent to put aside political considerations and allow economic solutions to work. It has been suggested on the other hand that the problems are more essentially political than they are economic. I would like to suggest that it might be more accurate to describe the problems as not only political but truly historical in nature.

Certainly, we know that the developed nations of which we are the leading one are in for a period of heavy going, heavy going in the long term and we can see if we look about us that the problems result at least in large part from large historical forces at work in the world.

It is not only that too much money is chasing too few goods, bur rather that too many people are now chasing too few basic materials.

We know that today the underdeveloped nations, the so-called former colonial powers, the one time have-not powers, are seeking to make the most of what they have and they are demanding that their expectations be fulfilled.

To my mind, this now requires the highest level of government attention and notably the President himself to take up the unprecedented challenge of leadership both at home and abroad.

The economic policies required to reduce demand and lower the inflation rate are by now well known and there was a broad agreement about them at the President's September 5 meeting with leading economists.

Policies include restrictive fiscal and monetary measures. Unfortunately, all of these measures involve a fair amount of anguish for some Americans in the short run. Indeed they will hurt almost everyone. Unemployment rates will rise, profits will fall and some businessmen will go under and just about all businessmen will have difficulty raising money.

One is not so well known, to put it mildly, how in a democratic society you gain broad public support for these painful policies. I would argue there is no way we could indeed curb inflation and also preserve our free institutions unless we do gain that support.

Our political difficulties are magnified furthermore by what has been called here this morning "overkill". We must reduce demand enough to moderate inflationary expectations but not reduce it enough to pitchfork us into a depression. This means the policymakers have very little margin for error. It also means they have a considerable problem in trying to explain to the American people what they are trying to accomplish.

The credibility problem is enormous. There will be times when a wise policy calls for us to moderate the degree of restraint temporarily in order to avoid overkill and some such moderation was in effect what many at the September 5 economists' meeting and what many here today are proposing for monetary policy.

They want it eased but I gather only temporarily and only within the framework of a still restrictive posture. This is all terribly difficult to convey to the public, especially when many of them will be expecting that temporary moderation can be turned into a major relaxation of whole campaigns against inflation.

There are a number of things the Administration might do to minimize the credibility problems that are built into this situation. The most important it seems to me is to be fairly explicit about our objectives. I would think at this point a reasonable objective would be an inflation rate of three percent or less to be achieved within three years.

We don't necessarily need a precise timetable with the stops all along the way, but it does seem essential that the public understand that there will be a long campaign.

We also need to make the people understand just how our fiscal and monetary measures are working and here, too, it will pay to be explicit about the targets.

One of the magazines we publish, Fortune, would associate itself with those who come out this morning to ask for a budget surplus instead of a deficit.

I know that many here will regard that as an outsized ambition, especially those from the government. Perhaps as the year develops it will turn out to be not the right number that we proposed, $10 billion, but we do need some surplus and the number should be a significant one.

A sizeable surplus would serve as an earnest show of our intention and bolster credibility and also serve to moderate pressures in the financial markets and make the Federal Reserve task much easier.

Certainly, as to monetary policy, gradualism must be the name of the game. Whatever it is running at in terms of real dollars, the money supply growth is estimated to be in the neighborhood of six percent. I don't know what figure you can come out at -- you can make it come out at any figure by playing with base rates -- but a level of three or four percent seems to be one most of us believe here is highly desirable. It seems it would be a good idea if the President would put his prestige behind the Federal Reserve's valiant efforts to get us down to that level.

There is no real peacetime effort for the sacrifices the President must call on the American people to make. I hope he makes that call and I believe if he does, the people will respond to it.

SECRETARY DENT: Thank you, Mr. Shepley.

We nominate Mr. Waltersdorf and ask Mr. Benno Schmidt of the J.H. Whitney & Company to come forward.

MR. SCHMIDT: Thank you, Mr. Secretary. I prefer the formulation you gave last night in the President's words when you said we were here to discuss the problems which beset our economy to the formulation of just a conference on inflation.

I think inflation is one of the most serious problems that besets our economy as has been pointed out here this morning. It must be worked on in context. I think if we had nothing to do but to eliminate the inflation, we could probably get the job done if we did not care where the chips fell, but the chips would fall in the form of business failures and bank crises and unemployment to a degree which would be intolerable in this free enterprise economy.

Therefore, the problem is to determine what we can do about inflation without triggering the prices of unacceptable proportions and what we can do to avoid the crisis without triggering inflation in unacceptable proportions.

My firm is a venture capital investment firm that invests in small and growing business, and once we are in those businesses we usually stay in them for ten or fifteen years.

Small companies, if they are good enough to stay in business to get by the initial difficulties are usually efficient, productive, good companies, competitive in the marketand in the aggregate they employ a higher percentage of our employed peoples.

Today those companies are finding it exceedingly difficult to do any kind of debt financing and impossible to do any kind of equity financing. That is the lifeblood of those companies or of that type of company.

Within the last three weeks, I have had to help three such companies move their bank accounts from well-established banks in which they had long records in banking to large New York banks who were able to take over credit requirements that had previously been handled by the smaller or local banks.

Now, if those companies had not had a J. H. Whitney Company or someone comparable to help them with their requirements, they might be the edition that Time reported in its next-to-last edition about 5,000 favors given during the past half of this past year.

So, I think we must have some moderation in the tight money policy. I don't think it has to be an extreme moderation but we must have some moderation and I think that this will go a long way toward restoring the debt and equity markets for companies of this size.

I think the suggestions that have been made as to the federal budget are essential if we are going to moderate the money supply and not fire the inflation.

We must have a balanced budget in 1975 and it seems to me we should have a small surplus by June 1976. I think that would be not only good medicine but would be very strong encouragement to the domestic stock market and to the dollar abroad.

I am deeply opposed to wage and price controls. They work singularly unfairly to businesses that are growing and just getting started. We went through that period. It was a very sad period. I hope that will not be repeated.

I also hope, although it is not my particular interest that Congress will succumb to putting in controls for certain industries like the oil and gas industry which has come under pressure recently because that would be no solution to that problem.

SECRETARY DENT: Thank you.

We nominate Mr. Stetin and move on to Mr. Waltersdorf, President of the TriState Electrical Supply Company.

(Waltersdorf statement follows:)

My presence in this meeting is that of a businessman who is part of the wholesaling industry, which absorbs and markets more of the output and production of farms and factories than any other segment of the economy. As President of the National Association of Wholesaler Distributors I have talked recently to many concerned distributors throughout the country.

Today the wholesale distribution sector of the economy is privileged to market over four hundred billion dollars a year of the products of our farms and factories. Most of our investment is in the current assets of inventory and accounts receivable. We, in effect, are the "shock absorbers" of a major portion of the economic production of this country.

At present the wholesaling industry is in a state of shock as a result of the pressure put upon our capital requirements due to double digit inflation. Last week every newspaper in the United States had banner headlines, appropriately enough on Friday the 13th, stating "Wholesale Price Index Rises 3.9% for August" the highest increase in 28 years. That would result in an annual rate increase of 46.8%.

Unfortunately most people reading the Wholesaling Price Index react and think that wholesalers have raised their prices again. Instead it generally represents the index of prices that manufacturers are selling their products to wholesaler-distributors. In my own electrical industry for the first seven months of this year the McGraw Hill Price Index indicates a 23.6% rise in the prices of electrical products.

The inflationous effects of these horrendous price increases on wholesalers investment in replacement inventories and accounts receivable, as well as sales, are obvious. Additional capital requirements at 12% interest rates have put additional inflationary pressure into the pricing structure that we charge our customers. This further has been accentuated by the pressures of expanding inventories required due to shortages and longer lead times on deliveries from manufacturers.

High interest rates, shortages and price inflation have also put many customers, particularly in the construction field, in jeopardy. It has put artificial additional pressures on demand to get things now and store it on the construction site even though the material will not be required for another twelve months in many cases. The wholesale industry probably has at least $90 to $100 billion in accounts receivable under extreme pressure today. We are in the midst of a tremendous liquidity crunch. Its result is the beginning of a crumbling effect on the economy which is beginning to emerge among <u>our</u> consumers. These consumers

cannot go out and buy a cheaper cut of meat as the housewife type of consumer does. These consumers of goods have only one alternative and that is to go out of business. This portends the beginning of a falling apart at the bottom of the economy.

In identifying the causes of inflation I feel that we must begin by recognizing that the true character of inflation is that of squandering economic and human resources. This has resulted from:

1. Shortages and pressures created by tampering artificially with the economic structure of the United States through price and wage controls.
2. Production capacity shortfalls.
3. Inefficiencies in government such as those identified by the Commission On Government Procurement which to date have been largely ignored.
4. A restrictive monetary policy that has been too stringent in recent months.
5. Federal and state policies and laws which work to impair the productivity of business such as Environmental production and OSHA regulations.
6. Lack of self-sufficiency in energy production.

The only solution to counteracting the squandering of our economic and human resources is for the government to adopt a serious, no nonsense, responsible attitude toward inflation. It can best accomplish this by establishing a new and dynamic "Productivity Policy". Productivity is the opposite of squandering and waste. We must achieve greater productivity of machines, men, and money.

This is the responsibility of our political leaders of Congress, as well as the President, because they set the rational tone. But business and labor, as well as other sectors of the economy, have a major responsibility. Each must be willing to be objectively introspective about those policies, practices, and values, the modification or elimination of which would make a major contribution to increasing our country's productivity.

The sustained but increasing rate of inflation which our economy has experienced for sometime now has to a large extent been the result of the emphasis placed as a nation on the goals of maintaining a continuous pattern of economic growth and maintaining low levels of unemployment. Bringing forth a "policy of productivity" in order to balance our system may require difficult economic trade-offs. Productivity may be a painful priority, but one which must be a paramount policy for the President and the Congress to slow the rate of inflation effectively.

SECRETARY DENT: Thank you very much, Mr. Waltersdorf.

We nominate the Reverend Leon Sullivan and call upon Mr. Edgar B. Speer, Chairman of Pittsburgh's U.S. Steel Corporation in the absence of Mr. Stetin.

(Speer statement follows:)

Trying to spell out a solution to inflation in three or four minutes is about as easy as trying to engrave the Bible on the head of a pin. The causes of what we're experiencing these days go back many years and have very deep roots.

For example, out of the last twenty-seven years, the Federal Government has engaged in deficit financing in all but seven of those years. And I think it has become quite apparent that those budgetary deficits have been a major factor in inflating the money supply and price levels.

Dollars that otherwise might have been available for private savings and for investment in our economy have been siphoned off by the steady -- I might even say the dramatic -- increase that has occured in government spending and our national levels of taxation.

Another major contributor to today's inflation is the fact that our desire to consume has outrun our ability to produce. Everyone in this room today is aware of the shortages -- particularly the short supply of basic materials -- that are limiting production throughout the economy.

Yet many industries -- and steel is an outstanding example -- have been hampered in their efforts to expand production capacity, as a result of profit levels that have been far too low and profit prospects that have left much to be desired. And often, capital that might have been applied toward raising productivity levels and increasing capacity have been legislated into non-productive uses at rapid rates.

So when you put it all together, it's obvious that there is no quick and easy answer to the critical problem of inflation. But this is not to say that it cannot be solved, if the Federal Government will adopt tough anti-inflation policies and prove to the American people that it has the "will" to continue those policies until they produce the desired results..

Briefly, I think such anti-inflationary policies should center on four approaches. First, a tight fiscal policy that succeeds in holding Federal expenditures to a bare minimum. Second, there should be a temporary continuation of tight monetary policy, followed by a gradual moderation of that policy.

Certainly, we must expand the available supply of goods and services, and this can only be done through improved incentives for savings and investment. And finally, there must be a continuation of a market economy in this country that is free of both direct and indirect wage and price controls.

In the meantime, I think the most important actions that the Administration can take, beyond the four approaches I've already mentioned, are those that will stimulate much faster rates of capital formation and investment in this country. I will file a position paper on capital formation, Mr. Secretary, before the final Summit Meeting is held in Washington at the end of next week. And I would hope that much of our time here today will be directed toward discussing this very urgent need.

Finally, let me express a personal opinion. Inflation, of course, is a very serious problem. But perhaps an equally serious problem is the failure of many Americans -- and many Americans in positions of high responsibility -- to understand how our economy works, why it has been able to provide so much to so many.

We need to direct a lot more attention to this business of economic understanding -- the undeniable relationship between capital investment and profits, and the creation of jobs and higher levels of consumption without inflation. For if the future of this country is like its past, I think that given the facts, given the understanding, the American people will always prove themselves to be the best judge of what is right and what actions should be taken by those in government, business and in labor to provide for their best interests -- which, after all, is the ultimate purpose of government, business, labor and every other element in this great country of ours.

SECRETARY DENT: Thank you very much, Mr. Speer.

We nominate Mr. Simmons and call upon the Reverend Leon Sullivan of Philadelphia .

REVEREND SULLIVAN: I see a fatal error in our general strategy. If we are not careful, we will aggravate the condition more.

We can't try to cure inflation at the further expense of the poor. This country is sitting on a seething volcano. Underneath it, as the poor become poorer, as unemployment becomes greater, and frustrations deeper, there is a number at the bottom of our American economy, the bottom level of our population.

There is one level of poverty at twenty-five million Americans earning $3,000 or less for a whole family. There are twenty-five million more Americans, families earning $6,000 or less for a whole family.

There is a third level of poverty, Americans earning $9,000 a year or less for a whole family...75 million Americans. These are the people who are being affected by inflation the most but it cannot be solved by tying the knot tighter. Let's make it looser so our inflation can surge and bound upward again with the full free flow upward of our entire population.

We need a fresh new "Build America" concept and programs to help with elevating cities and poverty and vast ruralization programs for the rural poor. This is a problem not just for government. Government can't do it by itself. It is a problem for labor that restricts skillled training among the masses of people in our poverty cities making it impossible to develop the skills to stop the deterioration in those poverty cities. Labor will have to look at this thing and do something about it. They have to untie the knot that restricts us from getting skills by the thousands in our communities. Business has to help untie that knot. Profits must be scaled down to the needs of the people so that some of the people can reach down to help feed the roots.

We are not in favor in America for the unemployed of tying the knot tighter. We see the knot opening so that we can breathe. The need for a building of America program in the rural areas where there is vast poverty, the more you tighten the knot, the more you put poverty on people, both black and whote and in our inner cities.

I want to conclude by saying to the people of America that the poor of America are ready to help. There are community based organizations ready to help.

Business and government working together with people in community-based efforts to untie that knot might be a solution. Otherwise, I fear you will aggravate our problem more.

Thank you.

SECRETARY DENT: Thank you very much, Mr. Sullivan.

We would like to nominate Mr. Lee Loevinger and call on Mr. Grant G. Simmons, Chairman of the Simmons Company.

(Simmons' statement follows:)

Simmons Company is a leading manufacturer of home and institutional furnishings. Inflation has had an impact on every phase of our business. How we, as a company, are dealing with inflation has a relevance to this meeting, and here are some of the steps we are taking.

All expenditures are being scrutinized and questioned as they have not been in many years. We are applying brand new standards to all new expenditures, not only capital expenditures, but also expenditures for advertising, travel, expense accounts, etc. Nothing in our business is above this fresh scrutiny.

At the same time, we are always seeking ways of increasing the productivity of our manufacturing operations. However, steeply rising labor costs can only partially be offset by improving manufacturing methods.

Both the reduction in expenditures and the improvements in productivity are being achieved by instituting new priorities and more disciplined benefits analysis. This sort of action is an absolute "must" because we, as a company, cannot contemplate any such thing as a deficit budget.

Turning to taxation, I must emphasize that all federal tax incentives are carefully considered in making capital expenditures. Tax incentives which encourage capital expenditures assist productivity and are valuable anti-inflation tools.

In the long run, all of us need equity capital. Existing demoralization of the equities marketplace suggests tax reforms which would strengthen and revive it such as more liberal treatment of capital gains.

With regard to monetary policy, I wish to say only that high interest costs are ultimately reflected in higher prices. We are accordingly threatened by consumer resistance to these prices at the same time that our market for the furnishing of new homes is being squeezed by high interest rates and a dearth of mortgage money. High interest rates are actually inflationary.

Certainly the home furnishings and institutional furnishings markets are hurt by the high cost of time-payments, and continuing lack of funds.

By and large governmental regulations have had a negative effect on our productivity. This has been particularly true of OSHA requirements which in too many instances are clearly arbitrary and unnecessary.

With regard to guidelines, we feel that these can be made much more effective than is generally believed. We believe that the Government should make more extensive use of guidelines as an anti-inflation device.

Simmons Company is a multi-national company. We believe that an orderly free trade world market is essential to our overall productivity. We hope the Government will avoid anti-inflation measures which restrict international cooperation, damage another country's economy, or inflict double taxation on international earnings of U. S. companies.

SOME ACTION RECOMMENDATIONS:

Effect an immediate ten percent across-the-board reduction in all federal expenditures.

In order to reduce interest rates, it is imperative that Government decrease its demands on available capital in the money market.

Welfare programs should be reviewed at all levels of government and pruned to eliminate abuses. Benefits should be restricted to a point where there is an incentive to return to the work force. When welfare is a "must", spend welfare funds in directions that create a concrete benefit as was true of the WPA and CCC projects in the thirties.

We endorse the suggestion of an exemption from federal taxes of up to $1,000 in interest on savings accounts.

Increase taxes on gasoline, alcohol, cigarettes, travel and possibly reinstate the so-called "luxury tax".

Publish guidelines and jawbone the strays with an even-handed approach to both corporations and labor unions.

SECRETARY DENT: Thank you, Mr. Simmons. We nominate Mr. Arthur Taylor and call upon Mr. Lee Loevinger, Hogan and Hartson.

(Loevinger statement follows:)

Inflation undoubtedly is a phenomenon with multiple complex causes. Probably it can be controlled only by multiple and complex measures. However, analytically it is possible, and often necessary, to consider the elements of causation and possible remedial action separately. Accordingly, I propose to address myself to the area with which I have the greatest experience and knowledge, which is government regulation.

The major part of discussion of inflation seems to be concerned with monetary, fiscal and budgetary policy. However, these elements affect only one side of the price equation -- which is the money supply. The other side of the equation, which is the supply of goods and services, depends upon productivity and efficiency.

Government action with respect to monetary, fiscal and budgetary policy is most inviting because it is relatively easy for the Government to act with respect to these matters and Government action is likely to have a relatively quick and substantial effect. On the other hand, Government action with respect to productivity and efficiency in the private sector is more difficult, less direct and likely to be less rapid and less effective.

Nevertheless, there are two facts which make attention to this side of the equation important if we are to deal with inflation effectively. The first is the fact that prices are affected as much by the supply of goods as by the supply of money. The second is the fact that Government actions in many fields have substantially lowered productivity and impaired efficiency. The National Commission on Productivity reports that some 177 federal programs have a direct impact on private productivity and then notes, in the restrained language of Government reports, that "Government regulatory programs, in some cases, have a negative effect on private productivity.(1) Within recent weeks as attention has been focused on the inflation problem, both the Chief of the Antitrust Division of the Department of Justice and the Chairman of the Federal Trade Commission have stated that Government regulatory policies, in many cases, are responsible for inflationary price increases. (2)

When we examine specific instances we discover that not only regulatory, but also antitrust policy or actions, in a number of

specific cases impair productivity, lower efficiency and encourage price inflation. It is impossible in a brief survey or statement to review all situations in which Government policy in specific fields of regulation or control undermines Government goals of productivity, efficiency and price stability. However, a few illustrations will suffice to make the point.

The most notorious promoter of inefficiency is the Interstate Commerce Commission which, according to the National Commission on Productivity, is responsible for an unnecessary cost to the economy of between $4 and $10 billion a year. Among the numerous apparently unreasonable and uneconomic practices required by the ICC are the travel of trucks completely empty on their backhauls, the transportation of truck freight by circuitous and indirect routings, the diversion of long haul freight traffic from railroads to trucks,(3), deterring the modernization and efficient operation of railroads,(4), and the setting of uneconomic rates.

Even in the field of antitrust law enforcement, which is supposed to be dedicated to the promotion of economic efficiency through competition, there are examples of decisions that cannot be characterized as anything other than economic folly. For example, in 1968 the U. S. Supreme Court held that a newspaper publisher could not prevent a distributor of his newspapers from raising the price charged to subscribers for home delivery of the newspapers.(5) While this is only a single case it is well known to every newspaper publisher and to every lawyer for newspaper

publishers in the United States and the economic effect is incalculable.

Similarly the Federal Trade Commission has, until intervention by the Productivity Commission, in effect barred direct pickups of food supplies by wholesalers in their own trucks. The FTC has held that many cooperative buying groups formed by smaller retailers to get the efficiency and economies of quantity purchasing are illegal. Similarly, the U. S. Supreme Court has held that a cooperative association of small regional supermarkets violates the antitrust laws if it attempts to control the use of its trademarks by its members in the manner that the large national chains control their trademarks, despite the fact that such control is necessary in order to enable the smaller merchants to compete effectively with the large chains.(6) The Supreme Court has said, in effect, that under the antitrust laws the enforcement agencies and the courts are concerned only with the demonstrable effect of business activity on competition and cannot take any account of the "ultimate reckoning of social or economic debits and credits."(7)

These, and numerous other Government actions, raise the question why we tolerate Government encouragement or requirement of inefficiency. There are several answers to this question. To begin with, it is often thought that other evils are more threatening than inefficiency and inflation and that particular social objectives are worth the cost of inefficiency and inflation.

Mainly, however, it is because Government action takes place through numerous agencies and is based on numerous statutes, each of which is concerned with a particular field or subject and that each agency is pursuing particular objectives within its own field and simply does not recognize or believe that overall economic productivity, efficiency and price stability is a significant part of its responsibility. In effect, each agency says we will enforce our own rules and problems of productivity, efficiency and inflation are not our job. Unfortunately, in reviewing agency action courts almost invariably take the same attitude.

Thus, despite the fact that Congress has declared the promotion of efficiency to be a national policy and the persistence of inflation to be economically damaging (8) this declaration is apparently considered no more than a righteous admonition to the National Commission on Productivity. The concept of efficiency is referred to, usually in a statutory preamble or declaration of policy, in a number of statutes establishing regulatory agencies. However, it is seldom considered by most agencies, and virtually never is the grounds for significant examination when agency action is subject to judicial review.

There is, however, a model by which we can make a declaration of Government policy effective both as a standard for agency action and for judicial review. In the National Environmental Protection Act (9) Congress has declared the

restoration and maintenance of environmental quality to be an important federal policy, has required recognition of this policy by all federal agencies in all matters significantly affecting the environment and has required an environmental impact statement in all important federal matters affecting the environment. There can be no question that this declaration of policy and its attendant requirements have had a significant influence on the action of virtually all Government agencies, including the courts in reviewing regulatory action.

In the belief that economic policy is of substantially equal importance to environmental policy and that environmental policy will be ineffective without a complementary economic policy, I propose that the President seek and the Congress enact a declaration of policy on productivity, efficiency and price stability. This declaration of policy would recognize productivity, efficiency and price stability as important elements of the public interest, would require all policies, regulations and public laws of the United States to recognize these elements of the public interest and would require all federal agencies, including courts, to give consideration and substantial weight to productivity, efficiency and price stability in all matters having an effect upon these factors in the private sector. The drafting of the precise statutory language will require some effort although I attach hereto a draft of some suggested language. No doubt

there will be much debate about the precise terms of any such statutory declaration, and probably many groups and federal agencies will consider such a declaration to be an unacceptable abridgment of their customary area of action. The most serious objection is likely to be the contention that it will be difficult or impossible for agencies and courts properly to determine the impact of actions on productivity, efficiency and price stability.

However, if these objectives are as important as we now think they are it is rationally absurd and socially intolerable to have important Government actions taken without consideration for these objectives. Furthermore, there are particular cases where it is clear what the dictates of economic common sense are and where Government action in the past has been contrary to economic common sense. To hunt out each such situation individually and take either executive or legislative action to change it would require years and a massive bureaucracy. A policy declaration by Congress requiring all agencies and courts to act to promote productivity, efficiency and price stability will not automatically and immediately eliminate all of the governmental impairments to these objectives. However, it will be a long and significant step toward their achievement. It is one of the important things that must be done if the Government is to act effectively on the problem of inflation.

SECRETARY DENT: Thank you, Mr. Loevinger.

We nominate Mr. Stevens and now call on Mr. Arthur B. Taylor.

MR. TAYLOR: I have four points and they have to do with credit, confidence, capital formation and capital outflows because expansion of our money supply has contributed heavily toward the current inflation we have restrained growth in that money supply in recent months. This is an orthodox cure to the problem. We must be very careful while we cure the disease we do not kill the patient. Tourniquets must be loosened and there are signs of unprecedented strains which our financial structure is ill-equipped to accommodate.

Before these policies plunge us into chaos, we should moderate our policy to ease the strings on our financial structure even if this slows down temporarily the anti-inflation fight.

Second, whatever policies we put into effect, it is imperative that they be b acked by a fully informed public confidence that we are responding wisely to the problems before us.

This demands openness, it demands candor on the part of the federal government and on the part of business. This also demands that the public be far better informed about economic matters, a responsibility which largely rests with the news organizations.

The national press must take steps to increase the depth and precision of its economic reporting.

Third, budget cutting now, yes, but it is going to be hard. Government must restrain its future spending commitments. We need also to encourage thepublic to save and invest more. This is the means by which businesses expand their capacities and home buyers become home owners.

It is essential that private institutions be able to offer savings or investment vehicles with features attractive enough to compete for funds.

Of the alternatives available, it seems most appropriate to accomplish this through the judicious use of tax savings and incentives for savings. I suggest a national task force to devise appropriate vehicles to report in thirty days to the President.

Fourth, much has been said of the immediate increase in the price of imported petroleum and the need to recycle profits of the exporting nations. Very little has been said of the far more important long term consequences of the new oil price structure.

In a very short time the petroleum exporting nations if unchecked will control the bulks of the workd's financial resources.

There are only two solutions: alternative sources of energy will take some time. Somehow some way the price of oil must come down. I reluctantly suggest tha the destructive power of the cartel of the oil producing nations be met by a new consortium of those nations in an exporting agricultural products, a consortium whose goal would be to return all vital items and commodities to reasonable levels. There may be no other way.

If our economic future is to be the free, secure healthy economic one we all desire action is desperately needed and I hope this conference is a prelude to that action.

SECRETARY DENT: Thank you very much, Mr. Taylor.

We nominate Mr. Johnson and call on Mr. Whitney Stevens, President, J. P. Stevens Company.

MR. STEVENS: Thank you, Mr. Secretary. Basically we share the consensus which seems to be emerging from this meeting. We strongly support the President in his efforts to maintain federal expenditures at or below the $300 billion level in fiscal 1975 and to seek a balanced budget or surplus in fiscal 1976.

At the same time we do hope it will not be necessary to change the level of federal taxation although some adjustments in the mix of taxes may be indicated. We also think the current fairly restrictive monetary policy is about correct. We applaud the Fed for its rather lonely struggle against inflation over the recent months.

It is our opinoin that interest rates are more a function of inflationary expectations than they are of monetary policy be it restrictive or otherwise, and that the rates will respond when we begin to win the big fight which is now under way. Going on a balanced federal budget would surely take a good deal of credit off the capital funds market. There would at least be somewhat less competition for the limited funds available.

on the other side of the capital funds coin in the area of capital formation, it would surely help provide some incentives to the saver, especially the smaller saver through tax abatement or some method to give him direct access to the rate structure currently available to the larger saver.

There is a question of elementary fairness involved here also.

On the subject of government relations and how it applies to the textile industry, I would like to associate myself with the remarks of my colleague, Horace Jones and Mort Darman. I would like to expand their throughts in one area, the area having to do with wage and price controls receed into the past the problem of raw material supply in our area receeds into the past also.

Each week we are closer to a normal market based on supply and demand and that at least is one thing on the plus side in the current situation. Thank you, Mr. Secretary.

SECRETARY DENT: Thank you very much, Mr. Stevens. We nominate Mr. Kelley, and call on Mr. John H. Johnson, publisher, Ebony Magazine.

MR. HOUGHTON: He is not here.

SECRETARY DENT: Mr. Kelly, Dean of Business Administration, Pennsylvania State University.

MR. KELLY: Thank you, Mr. Secretary.

I would like to suggest for the consideration of the group three principles which could be incorporated into our overa-l national inflation control effort.

One, openminded and new consideration of the use of selective actions and controls in the formulation of monetary and fiscal policy.

Two, since the policy and problems here go far beyond monetary and fiscal issues, I also urge consideration of the role of the inflationary psychology which is so pervasive in the United States, the role of attempting to analyze the expectations of the large segment of the American people.

On this paper, I address this subject in an approach to understanding the principles of escalation.

Third, a national communications effort in which we might attempt to multiply the effect of this kind of dialogue taking place in these meetings at the summit throughout the thousands of decision-making units in the American system. Perhaps through the development of corporate and industry task forces and governmental task forces dealing with inflation control policies.

The private sector is, as has been pointed out, contributing now in its efforts on cost reduction and productivity though the problem invited new initiatives. I have heard, I guess, around this table suggestions which are essential. For example, Mrs. Peterson pointed out the potential of an inflation audit approach in which corproate policies in a variety of areas across the board can be appraised in terms of their impact on inflation not only from the point of view of the corporation and its profits, from the point of view of the corporation as a responsible corporate citizen. I think the inflation control audit approach might be included in the charge that some of you and some of us can deliver to our constituencies.

A further less well defined idea that comes to me after listening to this discussion is a new national effort to mobilize consumer-citizen input and participation into this area at the community, regional and national levels.

The basic policies we adopted as citizens, as corporations and governmental officials will eventually have to be eclectic in composition. They have to go far beyond the conventional wisdom because the conventional wisdom is not adequate and the people recognize it is not adequate to cope with the hard problems of political economics, trade-offs and equities we face today.

My personal conviction is that any approach to policy determination should lessen the inherent equities of general policy implementation on those citizens who are least equipped to bear the costs.

The approach that I suggest for the consideration of all is one I characterize as a segmentation approach of adopting selective controls which focus on prioritize trouble areas in the economy based on segmentation analysis.

We talk in the paper about selective monetary controls, emphasizing four areas: residential housing, spending on consumer durable goods, inventory accumulation and industrial plant and equipment.

A simple example of the residential housing area with control, using credit, I think it might be possible to use the Federal National Mortgage Association to funnel funds to the stagnated sector, which may not appreciably affect the remainder of the credit market and thus in effect act as a selective control.

The paper also includes commentary on selected fiscal policies in a variety of areas, a statement on behavioral expectations and I thank you, Mr. Secretary, for the privilege of speaking.

SECRETARY DENT: Thank you, Dean Kelly.

We would like to call on Mr. Marshall without notice because of the absense of Mr. Johnson but before, I nominate Mr. Chatham.

At this time, Mr. Richard Marshall, President, Marshall Maintenance.

(Marshall's statement follows:)

I'M RICHARD MARSHALL, PRESIDENT OF MARSHALL MAINTENANCE IN TRENTON, NEW JERSEY. OUR 400 EMPLOYEES REPAIR AND INSTALL MACHINERY IN FACTORIES. . .

INDUSTRY, WHICH IS THE SECTOR THAT I REPRESENT - ESPECIALLY SMALLER INDUSTRY - IS LEAST AFFECTED BY GOVERNMENT ACTIONS BUT MOSTLY BY THE INDIVIDUAL MANAGER'S INITIATIVE, IMAGINATION AND INGENUITY AND AS FOR ME, I'M GOING TO SELL, SELL, SELL AND TEACH, TEACH, TEACH, AND I INTEND TO LEAD MY EMPLOYEES SAFELY THROUGH ANY ECONOMIC SITUATIONS WHICH MAY OCCUR.

I'M ABSOLUTELY CONVINCED THAT CONSTANTLY INCREASING PRODUCTIVITY WILL WIPE OUT ANY SHORTAGES. I DON'T SEE HOW YOU CAN HAVE INFLATION WITH AMPLE GOODS.

IF THE FEDERAL GOVERNMENT WANTS TO HELP US, THE BIGGEST THING IT CAN DO IS LIBERALIZE DEPRECIATION ALLOWANCES OR REDUCE CORPORATE INCOME TAXES, OR BOTH. WITH THE MONEY LEFT IN THE BUSINESS, NEW AND MORE EFFICIENT MACHINERY AND BUILDINGS CAN BE PURCHASED WHICH WILL INCREASE PRODUCTIVITY. IF THE FEDERAL GOVERNMENT HAS TO INCREASE MY PERSONAL INCOME TAX TO DO THIS, I WILL ACCEPT IT BECAUSE ONLY HEALTHY BUSINESS CREATES JOBS.

SECOND, THE FEDERAL GOVERNMENT SHOULD SUSPEND ALL GENERAL PAY RAISES THROUGHOUT BUSINESS, INDUSTRY AND GOVERNMENT. THE ONLY KIND OF RAISES ALLOWABLE SHOULD BE FREQUENT MERIT RAISES BECAUSE THE INCENTIVE OF MERIT RAISES PUTS PEP IN ALL OF US. HOW DO I KNOW IT'LL WORK? IN THE 23 YEARS I'VE BEEN IN BUSINESS WE'VE NEVER HAD A GENERAL RAISE IN OUR COMPANY. BUT OUR FOLKS HAVE HAD MANY, MANY MERIT RAISES. AND WE'VE

GROWN 30 PERCENT A YEAR EVER SINCE, AND WE'RE NOW LOCATED IN 7 EASTERN CITIES. MERIT RAISES, AS A RULE, DON'T COST ANYTHING BECAUSE THEY ARE THE FRUIT OF SOMEBODY'S INCREASED PRODUCTIVITY. GENERAL RAISES, HOWEVER, ARE MERELY AN ADDED BURDEN ON BUSINESS WHICH MUST BE PASSED ALONG IN HIGHER PRICES.

THIRD, HERE'S A JOB FOR THE NEWS MEDIA, THE MINISTERS, AND THE LABOR UNIONS: (THIS GROUP HAS CONVINCED US IT HAS ENOUGH CLOUT TO FORCE A PRESIDENT TO RESIGN.) LET'S MAKE THEIR NEXT PROJECT ONE OF MAKING IT STYLISH AND PATRIOTIC TO GET TO WORK EVERY DAY AND ON TIME. ABSENTEEISM AND LATENESS HAVE CAUSED MORE JOB LOSSES BY THE WORKINGMAN THAN ANYTHING ELSE. THIS PROJECT WILL CREATE HONEST JOBS AND FEWER WELFARE CASES. WON'T THAT CUT THE WELFARE SEGMENT OF THE FEDERAL BUDGET?

FOURTH, THE NEWS MEDIA, THE MINISTERS AND THE LABOR UNIONS CAN ALSO START TODAY TO CONVINCE FOLKS THAT CHEATING IS OLD FASHIONED AND UNPATRIOTIC. BY CHEATING, I MEAN THOSE GARDEN-VARIETY ITEMS SUCH AS SHOPLIFTING, PILFERAGE, DESTRUCTION OF PROPERTY. THESE NEEDLESS WASTES DRAIN EVERYBODY'S WALLET AND CREATE HIGHER PRICES.

ANY SUBSTANTIAL MOVE IN THESE FOUR DIRECTIONS WILL INCREASE PRODUCTIVITY AND CUT COSTS. THIS IS HOW TO GET INFLATION UNDER CONTROL.

SECRETARY DENT: Thank you, Mr. Marshall.

We nominate Mr. Frank T. Cary and call on Mr. Hugh G. Chatham, Chairman, Chatham Manufacturing Company.

MR. CHATHAM: Thank you, Mr. Secretary.

Mr. Secretary and fellow participants, I am glad to be with you and in the words of Tiny Tim, God bless you, everyone. We certainly need that blessing in this endeavor.

I propose to associate myself with the remarks of my friend, Morton Darman.

I don't think that the Government should try to achieve quick results by meddling with new programs and larger Government expenditures. I am a great believer in a free economy but this means freer at all levels to freedom from feather-bedding and freedom for workers to have the right to work what and when they see fit without the artificial constrainst of union rules and a closed shop.

We need a massive reduction in Government spending to provide a more than balanced budget and to provide substantial tax cuts, I repeat, tax cuts for both individuals and businesses. Such a program will reduce prices, increase purchasing power, lower interest rates and provide investment money for the tools of production that make the continuously increasing standard of living.

I can sum up my beliefs in two words -- Adam Smith.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Chatham.

We call on Mr. Frank T. Cary, Chairman, International Business Machines Corporation.

Mr. Cary.

MR. CARY: Thank you, Mr. Secretary. In a session like this, I think we can only hope to define the problem of inflation and public policy in its broadest terms, but I am happy for the opportunity to present my thoughts.

Our inflation is part of a world-wide phenomenon caused by excess demand for all kinds of raw material, food and fuel, aggravated by poor harvests in 1972 and the large increases in oil prices.

While economic activity worldwide has slowed down, the U.S. economy still is in the process of adjusting to the higher prices of food, fuel and other basic materials, as well as to the large increases in labor costs and interest rates. This is a process that will require time -- a minimum of eighteen months. It is important during this period that we have a public policy that maintains the economy in an essentially stable condition to facilitate this adjustment process, but at the same time a policy which does not create a major recession. We need to increase our capacity to produce basic materials and we need to deal with some of the greater inequities in sharing the burden of inflation.

The risk of a major recession is now so high that, I believe, the time has come for a moderate easing of monetary policy. This needs to be offset by postponing or eliminating Federal expenditures that are not absolutely necessary. The present monetary policy is depressing the stock and bond markets, impacting the housing industry and thrift institutions, and making it very difficult to finance the additional capacity in the primary industries.

We should provide income tax relief to people with lower income who are carrying a disproportionate share of the inflationary burden. In addition, we should use tax incentives to encourage more investment in the primary materials industries and utilities. To balance this tax relief for low incomes and for investment, it may be necessary to increase taxes on higher incomes and corporations. If it is necessary, we should step up to it. In the short term, however, the thing we need most is a moderate easing of monetary policy now. This should not wait for Federal expenditure reductions or tax legislation.

(NO PAGE 135 or 136)

SECRETARY DENT: Thank you very much, Mr. Cary.

Gentlemen, my watch says 12:30. Mr. Cary was the last speaker. We have demonstrated a leadership in productivity that is unique. I commend all of those for their excellent participation.

We have one announcement that come in you might be interested in. The President will hold a news conference tonight at 8:00 p.m. We will resume this session at two o o'clock at which time we will have some interplay trying to define more precisely your recommendations. Thank you, ladies and gentlemen.

[The Conference was recessed at 12:30 p.m.]

AFTERNOON SESSION

2:00 p.m.

SECRETARY DENT: Ladies and gentlemen, will the delegates please resume their seats. Will the press and non-delegates please go up to the public galleries.

Ladies and gentlemen, this morning we covered broad discussions, many of which zeroed in on specific points. This afternoon, we believe that it would be very worthwhile if we could develop some of these broader points into more specific recommendations for the Congress and the President to consider.

We submitted both questions to be considered as well as the goals for this meeting and we might use those as the areas for making progress. One of the questions asked was to identify areas of particular hardship at the present time. As I have heard the presentations this morning, the areas of particular hardship came home to me as housing, the utility industry, finance, which applies to capital generation. I wonder if there are other additions to those that you would care to suggest?

SENATOR RIBICOFF: I would suggest unemployment and potential bankruptcy.

MR. CONABLE: I would suggest defensive energy.

SECRETARY DENT: Intensive energy such as what, Barber?

MR. CONABLE: Well, utilities are one but we have very substantially increased energy costs, particularly related to fuel. It is a terribly important part of growth and development, generally, that we have adequate fuel and there is no apparent sign of the cost coming down and it impacts quite differently on different industries.

SECRETARY DENT: Fine.

MR. HARPER: I just would like to add to that, I don't know that it quite fits but I think that this matter of our raw material supply, in other words, the matter of a national raw material policy, belongs along with these other problem areas that one has to be put in the forefront.

SECRETARY DENT: These are domestic raw materials as well as imported ---

MR. HARPER: I am talking our overall raw materials which are generally imported. I am talking about foreign raw materials and that, of course, includes oil.

SECRETARY DENT: And specifically, in this area the suggestion was made this morning about the trade legislation and involving access to supply.

Are there other thoughts?

MR. HARPER: I suggested we really need a national raw materials policy because this cuts across the whole American industry. I think we need a policy to help out some way to use our forces to counter come of the things that are happening tc upset the equilibrium and the economics of our raw materials supplies right now.

SECRETARY DENT: Thank you.

Incidentally, would you mention your name and mike number for the sake of the record?

REVERAND SULLIVAN: Yes, Leon Sullivan, mike number 29.

I would recommend the opening up of economic development type projects for our cities of parity and for programs of rationalization that efforts be made to expand cost-effective type training programs for men and women and that requests be made urgently to labor, that it loosen the hold on skilled training in intercity areas.

SECRETARY DENT: Thank you.

Any other comments?

MR. SCHROEDER: Mike number 26, William Schroeder, Graphic Artists International Union.

Is there going to be further discussion on the effects of high interest rates?

SECRETARY DENT: Oh, yes, we will get to that with the monetary policy, Mr. Schroeder -- these with particular areas.

Any other comments on this subject?

CONGRESSMAN SMITH: Mike 18.

I think when we talk about access to materials that we have to consider the impact of anti-competitive activity, monopoly enduced shortages, these kinds of structures in the business that has crept upward and upward in the business in the last few years and is bringing a genuinely hardship on many small businessmen. Right now, the shortage of Federal stocks cause those who are affiliated with the conglomerate that has prior accesses causing a severe hardship upon many small businesses.

They are being told you cannot have Federal stocks after the first of the year because they are going to use it in the parent company. I think that in considering access to materials we have got to consider this question of the conglomerate operations, the affiliations with conglomerates and the short stopping of these materials domestically.

SECRETARY DENT: Thank you.

I think that one of the responses to that, of course, would involve the capital generation so that industrial expansion can take place to take care of the entire market.

CONGRESSMAN SMITH: I would agree in industries where there is a surplus of basic raw materials but that nets work in petroleum where you have a shortage of the basic raw material; it just won't work.

MR. BOICE: Microphone 10.

I don't want to underplay the hand of small business in this but I do think you should recognize the problem that small business has under these particular conditions that we are talking about. There is a Congressional record referring specifically to this number 125 dated August 15, and I believe you should address yourself amongst the other items to the problem of small business.

SECRETARY DENT: Thank you, very much.

Are there other comments?

MR. SPEER: Ed Speer, mike 28.

It might be worth spending a few minutes on capital formation and discussing different methods of formulating capital other than the normal ones that we all think of.

SECRETARY DENT: This is to be one of the major topics this afternoon, Ed.

MR. SPEER: Thank you.

SECRETARY DENT: Any other questions on this hardship area at the moment?

All right. The next item under fiscal questions with respect to expenditures is the question of the budget for fiscal year 1975. We were asked as to whether we thought this should be maintained at $300 billion or less. The consensus I heard seemed to be in accordance with that. Do we agree? Let's have a show of hands, who favors $300 billion or less?

(Show of hands.)

MR. CONABLE: Mr. Secretary, may I make a comment on that? I know there is general disagreement on this and I don't disagree myself. It seems to me, however, that many people may be over-valuing the impact on inflation of some modest reduction in the Federal budget. Most of the expectations expressed by the professional economists, for instance, showed a very modest trade-off between, let's say, a $5 billion cut and any impact on the rate of inflation.

It seems to me the major value of this is in its psychological impact and not in anything else. In terms of direct econometrical exchange, it is not a very significant factor. The psychology of it, of course, is important because the Federal Government in one way or another is going to have to preside over economic policy and is very difficult for us to persuade others to tighten their belt as long as we have pretty swolen girth ourselves. So, I think the psychological value is not to be minimized.

However, I think many people may have an exaggerated idea of the direct interchange between a few billion dollars in fiscal policy and the rate of inflation.

SENATOR TAFT: Bob Taft, 14.

Also, of course, I think it is a valid figure, just bearing out what Barber Conable is talking about when you add local and State expenditures and revenues into the overall picture you find that the overall rather than being a deficit situation is actually a surplus situation so that anyone who thinks that we have gotten entirely where we are because of debts of Federal spending, at least on the short range, has to overcome that fact in some way.

A long range situation, I admit, is different and, of course, the impact of the long range may be far greater than the reflection today of our problems that is the short range picture.

SECRETARY DENT: Mr. Taylor.

MR. TAYLOR: I am Arthur Taylor, microphone 30.

Mr. Secretary, there is a very powerful consensus to have a balanced budget or budgetary surplus and I fear in the course of this presentation we may be misrepresenting to the public that it is possible to accomplish. I am just an amateur budget watcher but as I look at the potential expenditures in 1975, even men of good will acting at their best or acting at their worst, I think it is going to be extremely difficult although I would like to learn otherwise to cut the non-defense sector of that budget by more than $2 billion or $3 billion, so it would seem to me that although we may not like it, it is important to talk about how things really are rather than how we would like them to be.

If, in fact, we are going to have a balanced budget or a budgetary surplus in 1975, that is either going to have to come by a rather large slash in the defense sector of the budget which is again ont going to be easy to come by or it is going to have to come through selective tax increases, particularly on corporations and in the upper income brackets as the lower income brackets have already born the harshest tax of all which is known as price inflation.

It is one thing to ask the table to raise their hand in support of a balanced budget in which we would all agree or a budgetary surplus but I do think that the difficulties of accomplishing that cannot be overlooked by this gathering.

SENATOR BEALL: May I comment to Mr. Taylor?

The Senate in its defense appropriations just a few weeks ago cut the defense budget by $5 billion along the line -- I don't know Barber, what was in the House. What would you cut?

MR. CONABLE: $3.2 billion.

SENATOR BEALL: I would estimate that the Senate this year when it gets through with the process will cut a total of $17 million in the 1975 budget request.

SECRETARY DENT: You are down to 298.

MR. CONABLE: What is important is what is being cut is the appropriations and not necessarily the rate of spending. The impact of that degree of cut in military appropriations may translate into a comparatively modest cut in spending because of commitments made in previous years and so forth and really what we are talking about although it is absolutely essential that we cut appropriations down the line which is if we are going to have a reduction in expenditure.

We are not going to have a dramatic and direct impact on the rate of expenditures simply by cutting appropriations this year. What you are talking about is closing bases probably and additional personnel cuts in the military, and that sort of thing takes some time to implement.

SECRETARY DENT: Mr. Harper.

MR. HARPER: Number four.

Mr. Secretary, I would like to speak just a moment to Mr. Conable's statement and while I don't disagree with what he says, I think we have to look at the fact that this cumulative budget deficit over the years has undoubtedly been a major contributor to our problems.

I think it is not only the psychology of the thing, I think if we are going to start some time trying to move back in the other direction to make up for these budget deficits we have had over the long period of time.

While I can fully agree with the situation, I am not much impressed by the fact that we take most of the expenditures and say they are untouchable.

When we in business go to cut the expensable ones we go off the untouchable wholes -- the easy ones anyone can get at. I wonder why we cannot really look at some of the untouchable expenditures in government.

SECRETARY DENT: Thank you, Mr. Harper.

REVEREND SULLIVAN: Just this one last word. I am in favor of it if it does not again cut back on efforts to lift the capability of the poor. We have to have some discretion, I know, but we cut back also on what we call human resource programs and what are called human benefits programs where I am not in favor of cutting back there.

I am in favor of developing programs that will make people more proud, so they can add to the economy of the country and cut out welfare and make them self-employable and taxpayers.

SECRETARY DENT: Thank you.

Other comments?

Yes, Mr. Smith?

MR. C. SMITH: I think this is much more than just a psychological problem we have here. The very effect of these huge Federal deficits are soaking up all the credit that exists in the country. Now we worry about the housing industry and why we cannot find money to keep our housing industry going at a rate that people can afford, and last month the Federal Government goes out and sells $4 billion worth of debt at nine percent.

Well, now, how can savings and loan compete with that? They can't. You have got to get the Federal deficit managed somehow or other or there won't be credit for housing or anything.

SECRETARY DENT: Thank you.

Mr. Marshall.

MR. MARSHALL: I am Mr. Marshall.

This is in answer to Reverend Sullivan. If the Reverend will get in the pulpit on Sunday and tell his folks, "You get to work every day and you get to work on time", he will do more good getting them off welfare than anything else.

REVEREND SULLIVAN: Yes. All they have to do is get an OIC in this town and get to work on time, get a skill, get a job, get off welfare and start paying taxes. The community has to base these community programs. I will make you a chairman of the OIC in your town.

MR. MARSHALL: You get them to work and we will teach them.

MRS. PETERSON: Number 23.

I wish now that I were one of these fiscal experts because you are talking in all these terms that I still think that we cannot get down to have people understand. I just wish for example that all of these people had a job to go to and it bothers me that in the kind of thing that we are planning, that we are forgetting how many million people will be without it and we cannot talk about this in isolation to your first question of the welfare, the number of black young people that are unemployed, 30 percent of them.

I don't know how you are going to teach them when there is not a job. It is a relation of these and there are a lot of untouchable things but I think also that many of the economists and experts have pointed out many of these areas. I just don't like us to grab at this as a simple answer.

I think it is far more complicated than we are saying.

SECRETARY DENT: Thank you.

SENATOR BEALL: Mr. Secretary, Glen Beall, microphone 13.

I have somewhat of a question for the group because I have observed during our discussion here that it seems that one of the highest priority items is to seek a balanced budget but I have also observed in my relatively brief experience, as one who votes to cut the budget, this may be an unattainable goal as desirable as it seems and may be undesirable.

Therefore, I have also observed this morning that if we are going to spur the kind of business activity that is going to get our country back on the track, we have to offer tax incentives to people who are in business in order to generate the capital necessary, that is going to bring about the tax investment. There is going to be a time lag, I guess, between the time we offer the inducement and the time we get the growth in base that will allow us to produce the tax revenues that will -- even though we are very prudent -- will allow us to keep our budget somewhat in check.

Now, this means to me -- maybe I have over simplified -- but it means that we are going to have to get some more taxes somewhere to pay for this trade-off and I am wondering if people in this group are saying we have taxed the rich, which does not really get us much money. Are the corporations willing to pay that much more tax in order to keep us fairly well in balance or are they suggesting that we go to the great bulk of the American taxpayers, the middle income tax guy, to pay all the tax anyhow and if we do that, do you think the middle income taxpayer is willing to pay more government taxes?

MR. MOOREHEAD: Mike number 17, Bill Moorehead.

I want to follow on what Senator Beall said. I think the unanimous consensus was that we should get the budget under Congressional control. Almost every speaker urged that, but then quite a number urged incentives to saving investments, liberalization of capital gains, liberalization of depreciation allowance, tax exemption for interest on savings or reinvested dividends, even deductions for expenses in environmental protection and job safety and we do have to save if we are going to give these tax incentives and have a balanced budget.We have to have additional revenues to offset those.

There were some suggestions. I noted that Mr. Kerby suggested a tax surcharge on incomes over $15,000. Mr. Marshall said he was willing to pay an additional personal tax and Mr. Simmons suggested an excise tax but there seems to be no general consensus.

If we take these routes which are negative as far as revenue producing is concerned and disbalancing as far as the budget is concerned, how do we offset that?

There seems to be no consensus as I can see as to how that should be done.

MR. HARPER: Mr. Moorehead, I think there is one consensus. I think nearly everyone suggested cutting government expenditures. I think that was almost universal.

MR. MOOREHEAD: Number 17, Bill Moorehead.

My thought, Mr. Harper, was that maybe we could cut revenues down at the present level to balance revenues but if in addition we are going to cut revenues, we are going to have to find additional sources of cuts more than have been expressed at this meeting, as I listened to the discussion.

SECRETARY DENT: Mr. Jones?

MR. R. H. JONES: Microphone two, R.H. Jones.

One of the principal concerns we have with respect to the budget and one of the reasons we have suggested very strongly that there should be fiscal expenditure restraint is the grave concern that we have over the revenue estimates. The $294 billion we have not talked about much this morning to your point, Congressman Moorehead, and the concern we have on this front goes to the fact that the economy seems to be developing more weakness than estimated the time that that fiscal or rather that revenue estimate was made and I would question that the $294 billion figure is a very sacrosanct number and if we persist with the problems that we are currently facing and they aggrandize as they seem to be with utility spending slowing up, with the capital programs of industry unquestionably going to reflect the same thing, then we are looking, we felt, at a deficit that could be considerably larger than the one that we were talking about originally this morning, perhaps as much for the calendar year 1975 as even $25 billion.

So, this certainly would indicate the need for stringency on the expenditure front.

SECRETARY DENT: Thank you. I think it comes through clear, first of all, that we don't want to recommend that 1975 fiscal year budget, which, incidentally terminates June 30, 1975, be $300 billion or less. Each one of us who have voted for this, then, assumes the responsibility of being willing to share in the cut if it gets on our own feet and to support those members of Congress who carry out these recommendations rather than chastising them for being too meagre with certain programs.

Let's get on to the 1976 fiscal budget. The question was deficit balance surplus. Could we have some expressions on this? This is the year, July 1, 1975 through June 30, 1976 there were a few comments in favor of surplus.

There were many comments in favor of balance. I did not hear deficit proposals.

MR. SCHMIDT: On the 1976 budget, I think it is, first the unanimous view around is that everything should be done to cut expenditures. We should recognize that is an easy position for this group to take. It looks like there is $300 billion in there. Surely somebody can get in there and find the $8- or $10 billion that can be cut out of there so everybody is in favor of that.

The hard point comes when you get to the question that was sort of implied in what Senator Beall and Mr. Moorehead said, and that is, all right, you cut expenditures now and all you can or all that is politically feasible and to be accomplished.

Now, are you willing to step up to the revenue side, if that is what is required, to get a balanced budget. I think several people around the table indicated they were. That was far less unanimous than the feeling of balancing the budget by cutting on the expenditure side.

I think that is the hard question. I would like to see how the group would look on a show of hands as to what, without our trying to define the area of taxation, because obviously we are not going to do that by 4:30, but would you be willing to step up to a tax increase if that is what is involved in getting a balanced budget for surplus budget in 1976.

I for one would be. I think it is that important to have a balanced budget in 1976.

SECRETARY DENT: Are there any other comments?

MR. SCHMIDT: One of the items in here is a $6 billion distribution to the states under what is called revenue sharing. I wonder what the group might think of cutting revenue sharing to the states. They seem to be in a surplus position anyway. I would like to hear what people in the field think about this.

SECRETARY DENT: Are there any comments on the revenue sharing program?

CONGRESSMAN SMITH: It is easy to say cut but you have to have specific places to cut. You will have something decreasing production instead of increasing production.

MR. CONABLE: I hate to leave it just with Mr. Smith having asked the question because there are other implications here besides the economic implication.

Revenue sharing is a transfer of what is in effect progressive tax money into an area previously nourished with regressive taxes, namely real estate and sales taxes.

It does seem to me that there is some point quite a part from the issue of decentralization and getting discretionary money into local government and transferring or maintaining significant decisions as close to the people as possible.

Quite beyond that there is the issue of tax reform involved in revenue sharing which tends to skew the whole system toward the progressive tax and away from the regressive tax.

It is a more complicated issue than simply the issue of direct economic priority.

MR. SCOTT: This relates to the elusiveness of the target in terms of budget cuts. For example, if we cut federal employment but 100,000 federal employees, theoretically this would reduce federal outlays by something on the order of two billion dollars a year.

However, that means that our tax receipts would go down because in fact those people are no longer earning incomes. It also means our expenditures would go up because in fact we would have unemployment compensation for these people who are out of work. So, without trying to paint us into a totally circular argument, there are implications that mean that as you make a two billion dollar cut, your revenues may drop somewhat, so you will still have further to go to get to the budget balance for which we are shooting.

That should not be forgotten in the dialogue that takes place in terms of the nature of the federal budget.

MR. FELLNER: There may be a transfer of employees from the federal sector to another sector, for example the private sector.

MR. SCOTT: To the extent we are talking about cutting the federal budget deficit, for example; we are talking about public service employment. Obviously, there are offsets on each side on the outlays of public service employment.

MR. FELLNER: There would be some in the private sector.

MR. CHATHAM: I would like to ask Mr. Scott a question, please.

What is the rate of turnover in the federal employment? In other words, if the government said we are not going to hire anyone else, what would this accomplish over what period of time?

MR. SCOTT: As I mentioned earlier, there has been an employment cutback put into effect that will amount to 40,000 federal government employees. This is approximately two percent of the civilian employment within the federal government. This will be done almost solely by attrition. Now, what the turnover is a year, I really don't know that figure. Perhaps one of the gentlemen up here does know.

SENATOR NUNN: I would not certify this at all, but I have heard the figure in the defense alone is about two hundred thousand a year in civilian employment. That is all types of turnover. That seems to be rather high, but I think that is about correct.

One thing I think should be pointed out, we have heard an awful lot about the 40,000 federal employees that we have terminated jobs for. That took place way back in June of this year under the authorization bill of the Senate Armed Services Committee. We cut out 44,000 in that alone on civilian employment and it came out of conference with the House at about 33,000 and we have heard a lot of announcements about that 40,000 since then and I am sure they are counting the same 33,000 that were pruned out long ago.

So, I have to put that 40,000 cutback in terms of rhetoric.

SENATOR TAFT: I don't believe it has been completed.

SENATOR NUNN: It is completely through attrition, and it represents only about twenty percent of the overall civilian defense force that turns over, so it can be done in significant amounts, I think, and you could have significant cutbacks without having layoffs.

Now, the question of what happens to those jobs and where those people would otherwise have hypothetically been hired will now find employment is one that goes to the economy, I suppose.

SECRETARY DENT: Thank you.

I think perhaps we should move on to the question of receipts which, of course, is a taxation and have some discussion about the current level of federal taxation. We touched on this briefly. If we wish to keep expenditures up, are we willing to tax ourselves in order to get the balance in 1976?

What are the general views about the levels of taxation at the present time?

MR. deBUTTS: In answer to Mr. Schmidt, I can understand very easily that if we are going to keep a balanced budget, if we are unable to make sufficient cuts in the budget, we are going to have some increase in revenues.

There are many different ways that we can get it, but I would hope that we would keep in mind that one of the biggest problems we talked about this morning has to do with the generation of capital that will allow industry to enlarge, improve their capacity to provide material for the consumer.

One of the ways that industry gets that capital is by attracting investors through earnings. So, I would hope that we would keep in mind, if we are going to increase taxes on corporations, it is going to be self-defeating because we make it even more difficult for them to go out and attract people into that particular company.

This sounds a little self-serving, too, but I would not be too concerned about my personal tax but don't put it on my company because I think it defeats the purpose of what we are trying to do.

MR. BROWN: In the course of your inflation hearings in the Banking and Currency Committee recently there has been a suggestion made that we eliminate the corporate profits tax and basically assess it on all individuals.

MR. deBUTTS: I don't think we have to go all the way in either direction, Congressman, because, after all, we are looking to the individuals to put the money in. If we take all the money away from taxation, they are not going to have any money to put in it, particularly in the utility field, there are not enough that can generate enough revenue internally to pay out dividends or to meet capital.

After three years, we have been able to raise our internally generated capital from forty-two percent to sixty-five, but that is still $4 billion a year we have to raise on the outside every year. It is impossible for us to raise enough capital internally to meet our requirements, so we have to depend on individual investors on the outside, so let's go down the middle of the road.

SECRETARY DENT: I think in round figures, we might also identify the fact that state and local taxation runs about 50 percent of the federal level so that the combination of the three need to be considered as we deal with this question.

Are there any other comments? If not, why don't we move on to the question of tax incentives or deterrents? We did not hear any suggestions, as I recall, concerning deterrents in order to effect national policy. Was this an omission by chance or could we gain something?

MR. BROYHILL: It seems the way the stock market is going today, if you get the stock market to turn around we would get some money out of capital gains.

SECRETARY DENT: Are there any other comments?

MR. GARFIELD: Mr. Schroeder made a suggestion for a deterrent and I wish he would repeat it.

MR. SCHRODER: In my objection to high interest rates, suggested through taxation as an inflation control measure you can put it on and take it off almost at will, where high interest rates have a long-term effect.

As I put it that time, best explained through the carryover into the future, high rates on mortgages.

We had a period when we did have excise taxes and they were placed on non-essential items. I have not heard other than I believe Mr. Simmons mentioned that today.

SECRETARY DENT: Thank you, Mr. Schroeder.

Are there any other comments?

MR. JERRY BROWN: I don't want the ceiling to come off the roof of the William Penn but as Bill Moorehead knows when we look at the fiscal side and the monetary side, when we reach a time where government policy is for contraction and we use tight money as a way to, in effect, cost money out of the market; when we do that, we are basically having a policy that advantages the already advantaged sector.

In all of these deterrents or incentives, we can provide some kind of income relief on savings from thrift institutions to help housing, but housing finance is a problem. We have tight money when interest rates are going up. Our economic policy is for contraction.

Our tax laws basically advantage rather than disadvantage the advantaged sector. The effective rate on corporate borrowings, when they are paying 14 percent, rather than seven or eight percent, whereas the effective rate to the homeowner on the mortgage when it is 14 percent is maybe twelve or better.

Now, then, one way that this could be corrected if the economic policy of this nation is for contraction is to limit the deductibility of interest to, say, seven percent which has been a rate that historically is about as high as it gets, except when the governmental policy is against further expansion.

The money does not flow into the advantaged sector to the extent it does in tight money times and then compensate, it seems to me, in some of the ways you suggested through, maybe, relief in the corporate tax area, but at least don't let it flow into the advantaged sector at a time when you want to disadvantage that sector.

That is a deterrent, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Brown.

MR. BROYHILL: I think sometimes you don't understand most corporations have a certain amount of money already borrowed. It would not make any difference if you raised the interest to twenty percent. I can't pay that back. I still have to borrow.

Most of us are in a fixed situation. It is not as easy as you raise the rate and then we quit borrowing. We can't quit borrowing. We have to keep borrowing so it is not so simple.

MR. JERRY BROWN: There is no question that this is not a nice situation for you, but we are dealing with the lesser of two evils and there is no money going into housing.

There is no money available. We are forcing interest rates up by attempting to do things on the one side of increasing interest rates on savings which basically built into the system then and absolute essentiality on loans.

MR. BROYHILL: I am suggesting there will be that much more money available because we corporations have to continue borrowing that exhibit amount. I will still have to borrow more next year regardless of what you do with interest rates.

MR. JERRY BROWN: What has been the history? If you relate corporate business borrowing to sales, capital investment, any of these things, any norm, what has been the relationship in recent years of corporate borrowing or borrowing to that fixed norm as a fixed percent?

MR. FELLNER: It certainly went up in relation to net investment. So the relationship between corporate borrowing and total net investment has deteriorated very greatly.

That is to say, what is being financed from external funds is now very much in excess of the net investment of the non-financial corporate sector, which is another way of saying that very much of the overall capital outlays including replacement outlays are now financed out of external funds.

I think this will be confirmed by the gentlemen who have had direct experience with this.

Also, there has been a considerable shift away from debt financing with reliance on bond issues to debt financing with reliance on bank loans, which perhaps also will be a concern.

That is what I read from the papers.

MR. R. JONES: Corporate debt now is about one trillion dollars. It is at the highest level it has ever been. It has doubled in the last ten years and the debt equity ratios are just about at breaking point.

Today, the corporate debt is three times the federal debt, which is a very unusual situation in this nation. Dr. Fellner is absolutely right, business loans from banks cannot come down. This is one of our problems. They can't come down because you can't go to the equity markets where stocks are selling far below the book value and you can't bring out long-term issues except at confiscatory rates and corporations are not willing to lock themselves in for long extended periods of time.

MR. FELLNER: Another way of expressing the same state of affairs is to say a very high proportion of the profits shown in the books are needed for keeping the inventories and the fixed equipment in tact because the book profits include the funds needed for replacement of inventories and fixed investment, and this part of the book profits has been rising very rapidly due to the inflation.

If you compare, for example, 1973 with 1965 or the second half of the 1960's, in general you will see this. This is what leads to the financing of a high proporation of the replacement needs by external financing, by debt financing.

MR. BROWN: I want to impose upon your time for a final comment.

Are we saying that basically we have to look at the federal budget? Don't look at the corporate budgets or business budgets, and don't look at the consumer budgets?

Are we saying b asically we have to look at the problem of debt as it relates to the collective people, the government, but we don't look at debt from a business standpoint, from the standpoint of where it exists in business and corporations, where it exists insofar as the consumer is concerned.

I think a case can be made for credit controls such as after Korea. It seems to me we have to balance all budgets.

MR. deBUTTS: Mr. Secretary, one of the big problems we are facing today, particularly in the utility industry, has to do with the profits and this increasing proportion of debt in our capital structure.

In my own business we have gone from 36 percent debt to 48 and a half percent debt. Interest coverage, which is a determining factor in our rating of bonds, has dropped from six point two seven. That is just about the breaking point between a triple A rating in our business and dropping it. If it drops, of course, the cost goes up. So, the profits side of our business is not only important in the area of attracting investors, but it is important from the standpoint of the cost of new debt which we are still going to have to have.

The other comment I wanted to make is I don't believe anyone here in business is asking only that the federal government attempt to balance their budget. I think I can speak for every businessman around here. They have their budgets screwed down so tight now that they are squeeking.

They are doing everything they can to improve their profits by their own internal operations. I think I can speak here for everybody at this table that that is true -- squeezing out every penny, cutting every capital dollar we possibly can to still meet our obligation to the public that we serve.

We are not asking the government to do anything that we are not already doing ourselves.

MR. SMITH: I would like to learn something rather than trying to tell you what I think the situation is.

I would really like to know the answer to this inventory problem. To what extent is capital tied up in unneeded inventory trying to beat inflation. We hear a lot of stories about tremendous inventory accumulations.

The figures we have on an overall basis seem to indicate that is so. If it is so, could some inventories be released at this time?

MR. HARPER: I can only speak for our industry on that. We have done a tremendous amount of work on studying inventories and our customers' inventories. We have our own inventories pulled to the lowest level we have ever had them.

We think our customers' inventories are down. We have had a few drop off in business where the inventories got high. We know of no cases where people have built up inventories to an excessively high level in anticipation of inflationary increases in cost.

We found no evidence of that whatsoever.

MR. LEE: I have a feeling that there is a lot of inventory that could be released. I can only tell you the experience we had in our own company. This is the way we used to operate. I would get our competitors' annual reports and take a look at them. If we had less than they did, we said we did a pretty good job.

A number of years ago we really made a real effort to study this out and found that we had a great deal more inventory than we needed. We express it in days. At the time we started, we had about one-hundred twenty days of inventory. We are now operating our business with eighty days. That is enough.

I think a good deal could be done in turning inventory quicker and certainly take a lot of pressure off the banks.

I believe there has been money borrowed to carry excess inventory.

MR. WALTERSDORF: Speaking for the wholesaling segment, today I would estimate there is at least $100 million tied up in wholesalers' inventories. I would not like to say these are all excessive inventories. They have been increased and inflated just by the sheer price inflation.

As I mentioned earlier, in the electrical products the price increase in just eight months has been twenty-three point six percent. This, itself, has been putting an inflationary effect on the whole process through our pricing structure.

In addition to that, our customers in the construction field cannot get long-term firm prices because of the inflationary price spiral, and they are having to take materialson the job site within six months, at least twelve months ahead of the time they normally would be using them.

They have their investment in it. They cannot get their money for it, and this is putting pressure on accounts receivables. This is a very serious problem in the whole area of capital requirements.

MR. C. SMITH: One more comment on this inventory thing because we seem to have gone full circle.

We started this morning talking about shortages in our whole economy in the United States. It is one of the reasons that forces high inventories. In my own company, five years ago, we could turn to Mr. Speers' company and buy any steel we wanted in three months.

We could get it. Today it takes 6, 8, 9 months. So, we have to order further in advance. Our customers have to order forgings from us further in advance and everybody gets caught up in this thing.

Somehow, we have to break the Gordian knot and find ways to increase capacity in the United States.

SENATOR TAFT: We heard a good deal this morning or at least there seemed to be a pretty general consensus that there should be liberalization of monetary policy. In view of the comments we have been hearing around the table in the last few minutes, I wonder if that was not understated, if maybe there ought not be a major change in monetary policy and whether, if this occurs in order to achieve the results that we are aiming at, you would not at the same time go to some type or advocate some type of allocation of credit between borrowers.

The Federal Reserve, I would point out, apparently already has the power to make such allocations. I don't say we should go this direction, but I would be interested in hearing some further comment because no other solution has been offered here in the last few minutes to the major problems of tight credit situations that exist.

I wonder if any of the panelists have comments on that.

SECRETARY DENT: Lets take up your suggestion and now move into this monetary area and open up on it. There was a discussion this morning and there were some die-hards who wanted to hold tight. There was not any tightening, however. Mr. Jones.

MR. REGINALD JONES: If I may just bridge the two subjects to be a little more responsive on the inventory situation because it does tie to this credit that we have been talking about.

Your Department, Mr. Secretary, has recently issued revised figures on inventory accumulation and they have shown considerably higher inventory in American industry than were thought to be extant and the ratio, as you know of inventories to sales jumped very sharply so that we do have a period right at the moment where there is an excessive inventory accumulation beyond that just occasioned by the inflati n that has compounded in the figures and this came about because there was some hoarding in these times of shortage but you have all noticed that on the London Metal Exchange that the copper has dropped in price from about $1.52 to the low, 60 cents per pound just within a matter of a few months and as that happens of course people liquidate their stocks very quickly and this is one of the reasons why we feel there is an intensification of this weakening of our economic situation in the country.

As you know, we always used to say the difference between surplus and shortage is one refrigerator, and as industry after industry reaches that "one refrigerator" immediately you get a run of inventory and our economy will be weaker.

Now, turning to the monetary situation, the figures that we have indicate something like this: That according to the American Bankers Association defaults on consumer loans have hit record highs.

According to Federal Reserve data, the corporate liquidity situation hit a record low. They use a modified quick ratio. At the moment it stands in the second quarter of 23.5 percent.

Now, at the depth the credit crunch in 1967 was 27.8 percent and at the depth of the credit crunch in 1969-1970 it was 24.3 percent. That would indicate that we are

in a more serious crunch now than we were in the last two liquidity crises in this country.

Furthermore, if you had reviewed the figures from 1955 through 1960, this was the period where we had in our recent economic history the lowest rate of money growth. We also had the lowest rate of economic growth and we cite these just as indicators of the severe impact of the credit crunch through which we are now proceeding.

We are not suggesting that we should give up on tilt monetary policy but it alone can just not turn this inflation around and it can exacerbate our situation actually. We feel that there should be an easing, but we are suggesting that this easing be tied to the rate of inflation, that if your rate of monetary growth is lower than your rate of inflation, you have a downward tilt which will bring the inflation gradually down, but that if you make very marked swings in monetary policy you compound all of our difficulties.

Our history has been one of the Fed moving much too far in any given direction up or down and dooing it late. What we are suggesting is that the Fed go on a gradual policy which would set a money growth that would be two to three points below the rate of inflation and there is much argument here whether we should be talking M-1, M-2 or M-3.

I am simply suggesting that we study the impact of a rate of monetary growth lower than the rate of inflation, do it on a very gradual basis and as the inflation rate drops, the monetary rate would drop. So far this year we have had about 5-1/2 percent through eight months but we did that with a bulge in the first quarter and essentially no growth in the last several months, something like 2/10 of a percent and it is the kind of swing that really does hurt.

If the Fed could go just on a more gradual basis we feel we can come up with much better results in this fight againt inflation than we have where they are putting us through a crunch now that could bring this economy to its knees would result in re-energizing the energy spiral.

As we all said, we cannot stand to see so many people out of work, we can not stand to see incomes fall as drastically as they have. With corporate profits down, capital spending coming to a halt, a compounding of the problem.

SECRETARY DENT: Mr. Jones, you have made a very specific recommendation where which obviously varies in degree from the policy that you have outlined in 5 percent growth. Do you think that the Fed should accellerate the growth over the near term or we heard a recommendation from the economic meeting at the beginning of these series that it ease the rate upwards.

MR. REGINALD JONES: There was a period, I am sure that Mr. Burnes is easing credit somewhat right now. He has changed reserve requirements slightly and that has pumped another billion or so into the reserve banks.

I don't think anyone at this table, certainly not in the private sector, knows what his current rate of monetary growth is or what his intentions are for the next 30 days. We are suggesting simply that he ease up to a point where he is well below the rate of inflation but considerably above this no growth that we had for a period in the third quarter of this year.

SECRETARY DENT: Do we have those that disagree with the suggestion of achieving a rate of monetary growth approximately 2 to 3 percent below the rate of inflation? Mr. Brown.

MR. BROWN: Gary Brown.

Another suggestion that has been made is that we tie the growth and the money supply to the gross national product, that this is a better reflector of proper need. Would you care to comment as to why you think it is better to tie it to inflation later than gross national product especially when we have the great gyrations that we sometimes have had.

In, for instance, agriculture commodities where you had an 80 percent of your increase in your index was in commodities which probably is not the same type of inflation that is to say, it is a cut inflation rather than a chronic inflation. Would you care to comment?

MR. REGINALD JONES: The argument that the monetary growth rate long-term should be tied to GNP is a very sound argument advanced by both the monitorists and also the very conservative, if there are such things and it is based on the fact that you can not grow an economy unless the money supply permits. The inherent growth rate of our economy has ranged between three and four percent on a secular trend basis.

I believe in the position taken by both schools that you should be growing your money supply at about that same rate, long-term secular-wise. We got into the trap of growing our money supply a couple points above that. If you go back now so many years and this gave us what some called a little bit of inflation that is good for everybody.

We kept it confined to about 2 or 2-1/2 percent. I am suggesting now that with the very sharp upward swing in the rate of inflation that we have got to bring the money supply up somewhat to avoid a ver serious recession and then taper the money supply growth down always below the rate of inflation so that we achieve the objective of bringing the inflation rate down but don't run into a liquidity crisis caused recession.

SECRETARY DENT: I think we could not have defined anything more precisely than your comments, Mr. Jones, on the monetary situation.

Are there those who would care to show their hands in disagreement with this?

MR. FELLNER: The conception is very appealing, but I think before we get numerical about how many percent less than the rate of inflation we nevertheless could have to specify whether we are talking in 1 or 2 or 3. So perhaps we should not commit ourselves to a number, but to the conception if you agree and if Mr. Jones agrees.

MR. JONES: I agree with that absolutely.

SECRETARY DENT: It is all the concept, absolutely.

MR. SCHMIDT: That was all I was going to say. I know I am not a good enough economist to say whether it should be in the rate of 2 or 3 percent below the inflation rate but as a practical matter from the business experience in the past month or two if there is not some moderate release, I can see the dominoes are going to start to fall. So, I think if we define it in terms of a modest relaxation, if that is a fair translation, why then it would be something we could vote on.

SECRETARY DENT: Yes.

MR. SARNOFF: Sarnoff, RCA.

I think one of the key points here is the need for a constant rate of growth. I think Mr. Jones is absolutely right.

As I indicated this morning, we have been going up and down, peaks and valleys. What we need is a constant rate of growth. I think a key element is the M-1. As I indicated, it ought to get back to the long-term trend. Whether it is 2 percent or 3 percent or 4 percent is something for the economists to figure out, but I certainly heartily endorse the principle of moderating the present restricted practices getting back to a constant rate of expansion, certainly tied to the inflation rate.

SECRETARY DENT: Mr. Sarnoff, we have left it to the economists heretofore, that is why we are trying to be more precise here today.

MR. SARNOFF: I think the economists can be helpful if they follow our precepts, they will come out all right.

MRS. PETERSON: Again I say I am not an economist and I don't differ as far as I understand it with the proposition that has been said, but I hope I am appropriate in raising this question.

Can we constantly measure all these things in terms of economic growth? This morning, there was a lot of talk about the environment, the air, all the rest of it. I wonder if we cannot talk about the quality of life. I think one of our problems is that we are thinging in terms of this dollar figure all the time when there is a tremendous move in our society to use a lot of this to improve the quality of life and I just want to warn you.

The issue is terribly big and I wish we could measure those some way. I don't know how to figure it, but it is part of the thing I can not forget.

SECRETARY DENT: Thank you.

One of the matters that come up most prominently this morning was the need for a generation of additional capital funds and money for financing expansion maintenance of

of businesses already in existence.

I would like to suggest we move on to the specifics of capital generation. Could we have some observations on this subject?

Mr. Speer.

MR. SPEER: Mr. Secretary, I would like to suggest that there are certain industries basic to our economy and steel is certainly one of them that for the last two decades our marketplace has supported the total growth for steel with products that were made offshore.

Today as we take a look at it where the foreign imports took about 20 percent of the market, today it would appear as though that 20 percent will probably not be over 10 percent and with what has transpired over the past year or year and a half it would appear as though the American steel industry is competitive probably the world over.

Foreign steel is coming into our country at a rate of about 12 million ton s. The average cost to the consumer is anywhere from 130 to 150 a ton more than the domestic list price which means that the consumer of the products made from steel are paying for that inflated dollar value of the imports.

So as the industry looks at the day, it would appear as though not only is our challenge to meet the growth within our own economy for steel but also to put in place that amount of capacity that had been supplies previously by the foreign producer and this is a tremendous undertaking.

Between now and 1980 looking just at the growth factor itself, it would appear as though there had to be between 25 and 30 billion tons of capacity put in place. If 12 million tons in addition to that is to be put in place to take care of what foreign steel had supplied into our marketplace, then it would appear as though there would be somewhere in the neighborhood of about 35 to 40 million tons that will have to be put in place within the next six years.

The capital requirement for installing this capacity is tremendous. In 1974 dollars, it would appear as though it would run somewhere in the neighborhood of about $600 an annual ton, so we are talking about multi-billion dollars.

In addition to that, with the debt ratio that the steel industry has today, which is not much different than the national average for all businesses, going to the money market to obtain those funds is going to be very difficult. More money is going to have to be generated internally than we have been able to generate over the past, let's say, two decades.

In 1973, the industry averaged four and a half percnet profit and four and a half percent profit as far as the industry is concerned means no growth, zero groqth. It does nothing more than keep the business at a constant level.

So that as we look at the day, not only is it going to be necessary to generate capital formation through some sort of tax relief or a number of other avenues that there are which of course would have to be put in place by the Federal Government.

There is one other thing that I would like to suggest, Mr. Secretary. We talked this morning about there being a $950 billion shortfall as far as capital formation is concerned. We talk about the OPEC countries and we talk about our raw materials and where we are with our investments off-shore if we have to go offshore to attain those raw materials.

It would seem completely realistic to me that where the foreign countries are looking to the United States for raw material support such as for instance coal as an example it would seem to me that we should as a country expect those foreign countries to make the investment for the capacity that they expect to get out of our own economy or from the United States.

It is indicated that there will be a requirement, for instance, between now and 1980 for 14 million tons of additional metallurgical coal. In 1974 dollars it costs $30 annual ton to put that capacity in place. For an economy that so desperately needs capital formation, I think we ought to be looking toward those countries who require or have a need for raw materials that are within our own border to put the money up to make them possible.

That is pretty much what the American countries do when they go off shore with raw materials.

I thank you.

SECRETARY DENT: Along those lines I know of one foreign contry interested in coal production in this country willing to put up the capital but because of the present difficulty in getting drag lines and mining equipment they can't get any takers but your idea is practical as these markets and our own demands are satisfied.

Now, we heard this morning, forinstance, on this matter of incentives for capital the suggestion that the utilities, for instance, on the investment tax credit be moved from the four percent to the seven percnet. That was one hard recommendation. Does this make sense to the whole group?

MR. SPEER: Not enough.

MR. HARPER: I think it does to us. I think it does particularly Fred because of the fact that utilities' plight really cuts across all business. That is, if they are not healthy, if theyare not able to provide capacity, I think we are all in trouble.

SECRETARY DENT: John, what concerns me more than cutting across business, if there is not power for industrial expansion, jobs will not be created.

MR. HARPER: Exactly.

SECRETARY DENT: This deals with unemployment and perspective unemployment.

MR. HARPER: It cuts across our whole economy.

MR. BURNHAM: Not only does it affect us now, but the lead time needed is so great that we can be digging a hole for ourselves that we would not see for a few years and we will be in real trouble later on if we do not give relief so they can start these now.

SECRETARY DENT: Are there other specifics than these?

MR. CONABLE: Barber Conable. I just have one note of caution here. I don't object to what you are saying about

tax policy with respect to utilities but generally speaking it is a good idea for the cost of utilities to be paid by those who benefit from them rather than to have a general tax subsidy for one industry as opposed to others.

I judge that utilities are not treated in the same way that other industries are with respect to capital investment ,and I simply want to add the note of caution that I think part of the problem of the utilities that the rate agencies have not given adequate recognition to their costs and that we have some serious problems in this area, particularly problems of inequity from state to state that have resulted in the utilities turning to tax policy to bail them out from what is essentailly a basic rate problem.

SECRETARY DENT: There was also discussion about the question of the inventment tax credit and depreciation treatment. Could we have any comments that you would care to make on these to define that more precisely? Mr. Jones.

MR. REGINALD JONES: Just to put this in perspective, the gross private domestic investment in the United States as a percentage of our gross national product is 15.7 percent. Now, that compares with Japan of 36 percent and Germany of 26 percent and France at 28 percent. We are very low on the scale among industrialized democracies.

Furthermore, the capital cost recovery allowances that are granted to U. S. industry under our tax laws are the lowest of all those countries that I have mentioned. Whether you are talking ITC or whether you are talking depreciation, ADR's and so on, and our concern is that even though we have, the investment tax credit, the ADR system for depreciation are under attack.

It seems ill-conceived that recognizing the problem that we ahve in this country is not only inadequate productive capacity but obsolute, that we could be challenged on these capital cost recovery allowances.

The facts are that the manufacturing plant in this country is considerably older than it is in any of those industrialized democracies that you have just mentioned.

Over two-thirds of our plant and equipment is more than 10 years old, as an example. The plant and equipment is much more modern in these other countries.

I would like to just add one other thought and it is this: Internal cash generation supplies us, of course, with most of the funds for new plant and equipment and in that respect these capital cost allowances of ADR and ITC are four times as significant as retained earnings -- four times as significant.

So, if we do nothing more than just hang on to what we have got, at least we are not going to deteriorate from the present position. Now, there have been a lot of suggestions made that we should have something more than what we have and that we do need to be competitive in the world markets, but for goodness sakes, don't take away what industry currently has.

SECRETARY DENT: I would like to raise one related question. One of the ways that we remain competitive in world markets as well as increasing productivity is through the advance of technology. Now, is there a connection between the present credit questions and the growth or decline of research and development budgets in industry represented here?

MR. deBUTTS: Mr. Secretary, to answer your question specifically, not in my business. Our expenditures for research and development are going up at approximately the same rate as our total business is going up. Last year, we spent some $660 million on R & D just in our own business.

So it is not affecting that. We cannot afford to let it affect it because we have to look not at today or tomorrow, but 20 years from now so we must continue our R & D. While I am talking, may I agree with Congressman Conable on one thing and make a comment on one other thing he said.

SECRETARY DENT: Certainly.

MR. deBUTTS: I agree 100 percent, sir, that one of the problems the utilities have and here I am talking electrics because for some reason they don't incoude telephone among utilities, is the regulatory arena. Failure of

the regulators to recognize the proper level of earnings needed by these companies and also the tremendous regulatory lag. In my own instance it will run anywhere from a year to two years and by the time we get an increase which is about on the average 60 to 65 percent, it is two years past and we have to go right back in again, which is one of the big problems.

But on the investment tax credit, as I understand it, one of the reasons that the utilities were given only four years versus seven for all other industyy was because that tax allowance was put in as an incentive to business to modernize and expand their productive capacity whereas it was felt that the utilities, including telephones, were required to put the plant in and they didn't need the incentive.

The electrics can't get the money to put the plant in and they have to compete with the other companies who are out there so they need everything they can get -- investment tax credit as well as a better treatment from the regulators -- if they are going to continue to provide the service to the consumer.

I personally think the electric industry in this business today is one of the most srious problems we have insofar as the total economy is concerned.

SECRETARY DENT: Thank you, Mr. DeButts.

Are there any other comments?

MR. SARNOFF: Mr. Secretary, I think in John's case he is probably spending as much as he has to for his type of business, but I think there is no question the high cost of doing business has impacted the development of technology which is necessary. Certainly in the area of new technology for greater productivity, that is true. A number of new industries highly depend on technology. It is a very costly business. It is profitable in the long-run.

I have no question that there has been a slow-up in some basic research and the development of technology as it applies to new methods of manufacturing, and certainly in some gray areas that fall between the public sector and industry where the return at the end of the road is not enough to justify the investment. I am thinking of such things as solar energy or desalinization. I think there is no question but that the high cost of capital is impacting on the development of technol ogy.

CONGRESSMAN SMITH: The suggestion was made that we help to meeting this problem of capital goods by encouraging foreign investment. I would like to point out in this regard that there is a constant pressure in Washington to curb exports. The Secretary wel knows this. It is hides one time, walnuts another time, and what have you.

But what foreign country wants to invest in the United States when there is a constant threat that in the event there is a world-wide shortage of a particular product, export controls will be applied.

It seems to me if we really want to encourage foreign investment, we have to have a firm policy that there will not be export controls.

SECRETARY DENT: Thank you, Mr. Smith?

Are there any other comments?

MR. SPEER: I hear what you say about curtailing exports, but let me give you a little example of how our good allies work with an American investment.

U. S. Steel invested in probably the largest pre-reduced ore facility in Venezuela about three years ago. When the price of scrap got up to $160 a ton, we were notified by the President of Venezuela that the pre-reduced ore that was being produced in our plant in Venezuela would no longer be exported, that that product would go into the Venezuela economy,into their steel business, and they identified a price that was equivalent to $31 scrap. This is the other side of what you are talking about.

Our problem is we are not using all of the strengths that we have within our own economy and our strengths are not gunboats. Our strengths are the commodities that we produce. We are not using those strengths to hold in line our allies, our trading partners. They sort of flip by here free and easy in the wind.

We do not say to a country that is importing food products when they triple or quadruple the price of their oil that we no longer will support your food deficit or we will no longer provide the essential goods that you require.

This is a little bit about what I think Reginald Jones was talking about. If I might, Mr. Secretary, I would like to make one other observation. We talk about research and technology. In those industries that are highly capital-intensified such as the steel industry, we have the technology today to put a green field plant in place that would reduce the average of the industry man-hour requirement by at least 50 percent and reduce the energy requirement from between 30 to 40 percent, but we have not been able to formulate the capital to take advantage of the technology, and this is pretty sad.

CONGRESSMAN SMITH: I think, Mr. Speer, you make my point better than I did for sure. After that experience in Venezuela, you don't want to invest in Venezuela, and the fear they have not to have that here makes them not want to invest here. If we don't have a tight policy against this, how can we expect foreigners to want to come here.

You are making the case for a good, firm barter deal, and it is time we got around to that.

MR. SPEER: I would like to have the Venezuelan industry on the line for their coal supply.

SECRETARY DENT: Ladies and gentlemen, I think out of respect for the Pittsburgh Pirates, we should take a 7-inning stretch for about two minutes.

[Brief recess.]

SECRETARY DENT: Ladies and gentlemen, let's resume, please. The Pirates are having their difficulties. I don't think we should put the economy in that position.

The next item we would like to discuss is Government regulations that affect productivity as we went around the room.

I would like to see if there is a specific comment with respect to ICC and the trucking industry. I would like to see if we could elicit other observations as to where the Government and productivity are not consonant.

Do we have any comments in this area?

MR. LOEVINGER: Some of the might be unprintable.

I addressed the suggestion earlier, and I made a suggestion which I would not repeat, but as I listen to the conversations I get a sense out of them and as I listen to the dialogue I get a sense out of it.

It seems to me a lot of people are saying business is not generating enough profits to provide its own capital investment; that business must go into debt to get the capital it needs to produce.

On the Government side, obviously we have the same process--taxes are not great enough. There is a question if we can increase taxes enough to pay for the Federal budget.

Now why, all of a sudden, with this tremendously productive economy of ours we are not producing enough on the business or government side to pay what we need to go along?

Let me add another fact. As all of you know, recently, it is not merely the United States suffering inflation. We are neither the best nor the worst. West Germany is probably much better off. Italy is worse off. Inflation is international in scope.

Is it not the case the United States finds itself in the unusual situation of not being an isolated market but only a small part of a world market in which there are many more competitors for raw materials than there have ever been before, and that it is the competition for raw materials from other countries that is acting as an inflationary force since the sum total really of available raw materials has not increased as fast as the world-wide demand?

Is it not also the case that part of the trouble with government relation--it is certainly the case in the antitrust field, I can assure you--most government agencies either can't or won't recognize this and insist on treating the situation as though it were the same as it was pre-World War II or even pre-World War I? They are still operating on the basis of Adam Smith's assumptions about the wealth of nations as if we could isolate nations as independent economic units.

Therefore, I throw out to this assembly that the last two topics may be intimately related in that we are suddenly operating not as a national economy that can be isolated as a separate entity but only as a part of a world economy in which nearly all businesses are competing in world markets and even those that are not directly in world markets are indirectly competing for raw materials.

SECRETARY DENT: Are there comments in the productivity area?

MR. SCHROEDER: I would like to comment about the attitude of labor in the area of productivity in the printing and publishing industry. I have heard numerous comments about unions stifling efforts to increase productivity. I could tell you what has happened in our industry. While the total production worker hours rose only 10.5 percent from 1961 to 1973 and industry sales climbed by 127 percent, it is obvious that output per worker in the printing and publishing industries has grown at a rapid pace. In turn, as productivity increased at a faster pace than wages, labor costs per dollar of output declined throughout the period from 1961 through 1973.

The ratio of total payroll for production workers in the industry to the total value of shipments declined from 21.7 percent in 1961 to only 17.9 percent in 1973.

Labor cost per dollar of output declined 17.5 over the 12-year span, an average annual rate of decrease of 1.3 percent in production worker labor costs per dollar of output.

It is obvious why labor costs as a percent of dollar output declined so drastically. The dollar value of output per man hour in the printing and publishing industry more than doubled from 1961 to 1973 from $12.64 to $26.08. That was a total increase over the 1961-1973 period of 106.3 percent or an average annual rate of increase in dollar output per worker of 6.25 percent.

At the same time, productivity was soaring, average hourly workers of production workers were climbing at a slower pace.

From 1961 through 1973, average hourly earnings increased 69.5 percent or an average annual increase of 4.5 percent. This means that average hourly earnings for production workers lagged behind productivity increases by an average of 1.75 percent per year.

Total production worker payroll as a percent of total sales stood at 17.9 percent at the end of 1973; 17.5 percent lower than the 21.7 percent payroll cost factor in 1961 and a substantial savings for the printing and publishing industry over the years.

As I pointed out this morning, while profits increased a total of 438 percent from 1961 to 1973, production worker payroll rose only 87 percent. This breaks down to an average annual 15.1 percent increase in printing and publishing industry's profits before taxes compared to 5.4 percent average annual increase in production worker payroll.

Again, I would like to point out that the value of shipments in 1973 for the printing and publishing industry was $34 billion.

SECRETARY DENT: Thank you, Mr. Schroeder.

SENATOR TAFT: I would like to concentrate for a moment on the government's role in the productivity area. We had a productivity commission for a number of years which was a tripartite that came up for reauthorization last year. Senator Johnson and I on Banking and Currency had the subcommittee, and

for all practical purposes, we put it out of its misery because it was doing such a poor job. I think part of that was due to its tripartite makeup which paralyzed it from moving ahead in any meaningful way.

Several months ago, realizing something had to be done, we passed some new legislation and the National Commission on Productivity has been re-established to help improve the productivity of the economy. It is supposed to spur greater efforts.

I wonder if the panel thinks that the Commission can have any impact on the private sector decision-making and are there any other initiatives that government ought to be taking in this field of productivity?

MR. WALTERSDORF: I would like to make a comment just on the fact that I think that the National Commission on Productivity or a counsel on productivity can definitely contribute by proper dissemination of information, proper investigation of certain areas that can increase our productivity.

I think some of the reasons it did not succeed and was not as effective before was because of the shortness of time, the manner in which it was organized and certain other factors you have alluded to.

I feel very definitely, in the area of productivity, the Government should complete and begin to implement the recommendations of the studies on government, impediments in the private sector, to efficiency and productivity as well as competition. A good example of this is what happened in the energy crisis when the Transportation Department started evaluating through rates where a trucker going from Cleveland to Washington, D. C., had to go through Pittsburgh even though it was more directly and less costly to go direct to Washington, D.C. This is just one example of the type of study and the types of things that we have in the way of government regulations and requirements that do impede efficiency and productivity on the part of the private businessman.

I also think that tax legislation designed to increase investment in more capacity should be enacted. I feel that the whole private sector has many ways that they can increase their productivity with the Government's help. I think that the Government has many areas where it can effect efficiencies.

This commission on government procurement has pointed out many areas where the government can effect greater productivity. Most of these have not been carried forward.

MR. MARSHALL: My friend here in Graphic Arts, I would like to correct some of his numbers. He says wages are up 60 percent and profits 400-some percent. Wage rates are up 60 percent. Accumulated profits may be up 400-some percent but the profit rate is probably minus because in 1961 profits may have run three or four percent after taxes; but, today, I know darn well it is under three precent.

SECRETARY DENT: Mr. Chatham.

MR. CHATHAM: Please, getting back to the last remarks on productivity, let's not have the memorial to this conference be another government agency.

SENATOR TAFT: You already have it.

MR. CHATHAM: Then an active one.

SENATOR TAFT: We killed it and then we revived it.

MRS. PETERSON: On the question of productivity, perhaps we could underline this audit I mentioned earlier, the inflationary audit. There are so many things I see in the food industry I have been working with where there have been recommendations we could not carry out because of regulation. One need only make a trip to our warehouse, where we are trying to automate, to see the lack of accepting palletizing, the new methods of packing. If you ask the warehouse fellows what the problems are, they will tell you.

It seems to me we could get information to help move this at a more rapid pace. I think we can do more more of that if we involve the workers who are really involved in those questions.

MR. DeBUTTS: I will admit possibly that there are some areas where the Congress could be helpful to business from the standpoint of approving productivity by eliminating some governmental restrictions as he described.

On the other hand, I personally feel productivity improvement is something unique to each and every individual industry. The problems are different, the people are different, the kind of work is different, the kind of equipment is different. I feel that we on our own have the incentive to improve our productivity in order to get our earnings up to take care

of the problems we have been talking about all day. I feel if we are left to our own devices that we can do the job on productivity that needs to be done. I think we have done it now on business and for Mr. Schroeder's b enefit I would like to comment all of our unions independent as well as the two international unions have been most cooperative in the efforts to do this.

MR. BROWN: It seems to me that all or most of the presentations this morning pointed out that Government has been one of the culprits in this whole area of impending productivity through its regulatory activities. Much, if not most, of our regulatory legislation that imposes an obligation upon the private or nonpublic sector really incorporated in it no productivity whatsoever. It does not increase the quantity of goods. It does not increase the quality of goods. So, therefore, there is nothing under the heading of productivity that is accomplished by these regulatory activities.

You might be interested to know that although the Congress for some time has required every committee to include in its report on legislation that it reports out an estimate of the cost of that legislation for the next five years to the Federal Government, that requirement has never been applied to the nonpublic sector. Otherwise, there has been no requirement that a committee attempt to determine what the cost of this legislation will be to the nonprivate sector. It is kind of assumed, I guess, that every time you impose a new regulatory responsibility that that is absorbed by industry. We know it is not. It is passed on and becomes a consumer cost.

I have advocated that the committee now henceforth--and I have asked to get the rules changed to require the committees--provide an estimate of what the cost of that legislation is to the nonpublic sector. I think we will then have members of Congress look at these pieces of legislation a little harder from a cost/benefit standpoint that they have in the past. I think this would help a lot in kind of impeding or making some be more cautious in the passage of legislation that does impose a significant cost upon the nonpublic sector that has no reflection in productivity.

SECRETARY DENT: Thank you.

MR. BURNHAM: The Senator had thoughts about the productivity commission. I think it can be very important if it is really an active commission. I think it can help a great deal in promoting more productivity improvement in the services, both public and private. We can stand great improvement in our medical services, in our education, postal service, and all the local and Federal Government services. These are all subject to great productivity improvement. They have not been tackled with the vigor that agriculture and industry have been tackled, so I think there is a real problem that this productivity commission can do to stir up and get the country working on productivity improvement in the services.

SECRETARY DENT: Thank you.

Are there further comments?

The question was suggested this morning that somebody should teach productivity. Are we referring to the school system, to the productivity commission through public information or at the government level?

SENATOR NUNN: I proposed to the summit Steering Committee about a week or two ago a paper which I will also put in the record here that deals with that very question. Georgia Tech has undertaken a program that is very similar to the old Extension Service program that was carried out in agriculture. That is, they are sending field representatives out to talk primarily to small businesses although the definition of that sometimes includes rather large businesses to determine, number 1, by their observations what is the field that can be improved in productivity most readily within that industry.

Number 2, they go back to their institution and they get their experts to take a look at that particular problem and try to come up with a model that would increase productivity.

Number 3, they take it back to the industry.

Obviously there has to be interest from the industry. The industry has to be willing to pick up some of the costs.

This has been done without any Federal funds to date. If they had Federal funds in this kind of program, I think even a small amount could go a very long way. They came up in recent months with a proposal to the carpet industry which is now in the process of the development stage that would save energy to the tune of about 20 percent in the carpet industry which would increase productivity and correspondingly would help our national energy policy.

I propose we marry industry with some of our technical schools. They have participated in the space age. Schools have participated vigorously throughout the country in the defense effort, but there has not been a corresponding relationship between industry and our technical universities.

I believe with very small cost the Commerce Department or other appropriate agency could undertake a program, perhaps even with existing statutory authority, to try to match industry with our technical schools at the State level without creating a new Federal agency, without creating new think tanks. I think we already have it. I think the potential is there, and I will submit that to you, Mr. Secretary, but I would like the reaction of people here, and I would like the serious consideration of the Commerce Department.

SECRETARY DENT: Mr. Marriott.

MR. MARRIOTT: In talking about productivity, it seems to me that the unions have more control over productivity than any other part of our industry. Union rules which control how much a person can produce seems to me to be the key to productivity. I am sure that business can teach its people how to produce more. In our own company, we have schools where we work with people and teach them how to do things better. But I am sure that in union shops your unions have a great deal to do with productivity.

SECRETARY DENT: Thank you.

I think perhaps now we should move on to this question of international conditions in the discussion. This morning we heard several comments concerning legislation through the Congress with the specific purpose of ultimately being able to come up with some sort of an international agreement under GATT relating to fair trade, both access to markets and access to supply.

Is this the consensus that I sense or do we wish to have other observations?

MR. CONABLE: I certainly want to endorse that idea. I think we are going to find ourselves having to do more and more in the way of international conferring on the conditions for doing business. Among other things, I think we need a general agreement on taxes and taxation than investment policy as well as the general agreement on tariffs and trade.

It seems to me that the attitude of the world toward the multinational corporation is something that needs to be explored a good deal more carefully than we have been willing to do it today.

The multinational corporation is a fact. What your attitude is toward it seems to be largely tainted at this point by domestic politics and yet it has a great deal to do with the flow of capital in international affairs. It has a great deal to do with our foreign policy. I suspect that our foreign policy ignores the existence of multinational corporations, 60 percent of which are based in the United States, at its peril, but I think it does ignore this movement generally in substantial degree even now.

I don't know that there is great enthusiasm in the business community of further exploration of the role of the multinational corporation. I think, however, that we can really not afford to put our head in the sand and say our corporations are still entirely national in their charteristic sense as we find increasing sophistication in the expressions of national sovereignty abroad with respect to American based corporations.

SECRETARY DENT: Do we have comments?

MR. REGINALD JONES: I just wanted to raise one more point in this international area. We have had absolutely no discussion today of the impact of the international monetary matters as they impact on domestic inflation and, of course, that is a rather significant omission.

I would hope that in any kind of a summit meeting that we might ahve some consideration of this issue and some support for the Secretary of the Treasury and the work that he is attempting to carry forward.

Although the C-twenty has been disbanded for the moment, a task force is going on. We cannot hope to insulate ourselves totally from inflation in other areas of the world and it is proceeding at an even more rapid rate than most of the industrialized democracies than it is here.

We never would have survived the situation, and particularly with the oil crisis without the floating rates and I would hope that we have got endorsement of the business community for the program that we are under now.

There is a lot of talk about stable but adjustable rates. I don't feel that they are applicable at this time but we must stay with the floating rates and we must here, too, I think drive for an understanding that a country should not be permitted unilaterally to adjust its rates vis-a-vis other currencies to gain short-term trade advantages.

This is all part of the work that is going on and I would hope that it would get the endorsement of the business community and perhaps be covered at the summit.

SECRETARY DENT: I think if we wish to get at the summit we need to develop it a little bit here in order to get a feeling of the consensus.

As I understand it, the proposal is that business and industry endorse the concept of floating rates.

Does anyone wish to address this matter?

MR. MOOREHEAD: Just a question, Mr. Jones. Do you think that the floating rate is the permanent solution or should there be some more stability? Nobody wants to go back to the rigidity of the Bretton Woods agreement but should there not be better ground rules than merely floating rates?

MR. REGINALD JONES: This, of course, is what the major powers are working on now, that we will develop a code of conduct that would permit the floating rates to continue as long as necessary but they would not permit any given country unilaterally to, as I said, adjust its rates to gain a short-term trade advantage.

There would be cooperative agreements through IMF. There will have to be some special arrangements made to handle the petrodollar problem certainly and we have not obviously gotten the solutions to that one but I just felt that you could not go through this whole issue without bringing up international monetary matters.

I think business has done a remarkable job of adjusting to floating rates and many businessmen that I have talked to endorse this approach at this time. They all agree that perhaps down the road you ought to be able to codify a practice.

That would eventually perhaps result in stable but adjustable rates within somewhat wider bands than we had before, but I thought we should go on record supporting the Treasury Department and its efforts in this program.

MR. BROWN: Mr. Jones, would you also concur in what the Treasury has suggested on occasions, that is, to adopt internationally a system of sanctions for those nations maintaining chronic surplus or deficit positions?

MR. REGINALD JONES: That is part of the code of behavior that if you run in a constant surplus position that if you are by your own central bank activity tending to preclude an adjustment in rate that would recognize a chronic surplus, let's say, that then there should be some form of sanction; whether it is a confiscatory rate on your reserves or no payment on your reserves, a number of suggestions have been made in that regard.

Yes, I do feel that as part of an international code of behavior on monetary matters that should be adopted.

MR. BROWN: Including a requirement that those nations adjust, revalue and devalue?

MR. JONES: Yes. In effect if you had a code of behavior here, the rate would adjust.

SECRETARY DENT: Further comments on this?

The next issue, then, we will move on to is this question of raw materials.

Mr. Pilliod.

MR. PILLIOD: Have we brought this question on foreign trade?

SECRETARY DENT: I don't hear any volunteers. We don't need to.

MR. PILLIOD: I think this question of foreign trade, although I agree with the Congressman on the issue of multinational exports, imports also require a new look. I know it was not too many years ago when our imports with just such a small part of our GNP that we paid no attention to it but as our tastes have grown in the United States and we have gone to such heavy imports of raw materials that you are going to get to energy products and so forth it becomes a new ballgame.

There has also grown up around the world blocs that are taking over some of the foreign markets through their associated memberships and so forth, which would tend to block U.S. exports out. I think exports are becoming more and more an important part of our economy as we go along and certainly we should begin to use some of our own clout in the way of food exports, coal, manufactured products and so forth and sit down with the foreign nations and negotiate treatment which will give our exports the capabilities that they require and the country needs.

So just to get back to this international question, I think we should press hard for the passage of the present trade bill so that the team that we send over to GATT to do their negotiating will be able to negotiate equal materials or at least terms that will give us a better chance of obtaining those objectives.

SECRETARY DENT: Thank you.

Of course, if we don't get the legislation, the team won't go because the President has not had negotiating authority since 1967.

Are there any other comments?

Yes, Mr. Loevinger.

MR. LOEVINGER: I don't know enough to know whether or not I agree with Mr. Jones in detail but it seems to me that this is like the question we discuss sometime ago as to whether or not the rate of money growth should be one, two or three percent, a little bit more or a little bit less behind the rate of inflation.

It does not seem to me that this kind of a group can decide the details of floating rates or of sanctions or of that sort of thing. The point I made a moment ago seems to me to be one that we should agree on and that we should emphasize and that is most important and that is that the United States economy cannot today be isolated from the workd economy, that we exist in a world market and a world economy and that virtually everything we do must be understood to be taken as a part of the world economy and that all of these actions have got to be correlated with actions and reactions that we expect from other nations.

We should not begin trade wars. We should seek to have international cooperation with respect to trade, international codes, with respect to money trade and other matters. Unless we do, it seems to me that we are in for a very rough time and it seems to me that whatever we conclude here at the summit or elsewhere will be essentially immaterial because it is going to be simply swept aside by the force of the world economy.

No matter how you figure it, no matter how important we are, no matter how dominant we are, we are still a minor part of the total world economy.

Thank you.

SECRETARY DENT: Thank you.

Comments on access to raw materials offshore in particular?

MR. MOOREHEAD: Mr. Secretary, could I ask a question?

SECRETARY DENT: Yes.

MR. MOOREHEAD: It seemed to me the panel had some differences of opinion as I listened. I think we could all agree that a significant part of the inflation that we have experienced to date has been because of increased prices of raw materials but some of the panelists I think agree with what Mr. Stevens said, that there was a normalization of the material market.

Today's Wall Street Journal reports a seven percent reduction in cooper prices but I detect that Mr. Harper's experience would be to the contrary and we have Mr. Spear and Mr. Connor and Mr. Jones, all of whom have to acquire raw materials.

What is the advice to the Congress? What does the future hold for us? Is this a serious future because of inflation as it has been in the past?

SECRETARY DENT: Mr. Harper?

MR. HARPER: While I could talk particularly on bauxite, I think it is true of all raw materials that we have. We are seeing strong pressure, political pressure by the raw producing material countries to raise their take.

This is brought about partly by worldwide inflation, brought about partly by other forces.

I think the real hazard is that unless we can set up a national raw materials policy and really work on this overall, work from our strengths, we are going to find ourselves picked to pieces one material at a time and I think that we are not making use of the strengths that we have.

I think the trade bill is quite important in this because this becomes really part of free trade or world trade.

Just for example, the tremendous increase that we have had in bauxite taxes by one of the foreign countries is going to force us to go to some higher cost domestic materials. Well, this will assure supply all right but it will assure supply at a higher cost than would otherwise be true and this takes a chunk out of world trade.

Now, if you multiply this with the steel industry and other people who are going to get the same thing, this can have an accumulative and tremendous effect on overall world trade. So, it seems to me like this problem is one that needs to be considered in its entirety, considering both our exports and our imports and it is one of tremendous importance for the long pull.

SENATOR RIBICOFF: May I add as a member of the Finance Committee I would anticipate that the trade bill will go through the Finance Committee within the next week or so and on the Floor of the Senate and pass. I would also -- I feel confident that the Jackson Amendment is ready to come to a conclusion and compromise within the next week, so those of you who raise questions about the trade bill, I am sure that before we go home for a recess or adjourn, the trade bill will be on the President's desk.

SECRETARY DENT: I think that is a conclusive statement. Let's move on now before someone challenges the vote.

Further comment on the raw material?

We have had a fine presentation this morning. Everyone brought papers where there recommendations were firm and fixed. I wonder at this time if after today's discussion there are any other ideas that have been stimulated that you would like to pass on to the President or to the Congress as to how this inflationary problem might best be dealt with other than the ones that came out.

Mr. Harper.

MR. HARPER: I am sorry to be talking so much.

Number four.

I would just like, if I may, Mr. Secretary, to make one comment on behalf of the Business Round Table which as you know is an organization of some 130 or 140 business people.

Quite a few of us are represented in this group today and I think that there are four things that run through all our presentations and I think have been quite strong in all this discussion. I think we can sum those up very quickly by saying I think we have all agreed that there must be some reduction in Government spending. There must be some easing up on the strict monetary policy; there must be something done to aid in capital formation and that we do not want wage and price controls.

I think that if you will look back, think back, certainly the Business Round Table members were all quite uniform in that and I think that we can say that we feel strongly and we will be glad to present position papers on each of those items showing why they are so important, not only individually, but for the whole business community.

SECRETARY DENT: Thank you, very much.

You mentioned position papers. I would like to mention that we will keep the record open. If anyone would

like to expand in writing, if you would send it to me in Washington, we will see that it goes into the record providing we have it by Thursday. After that, it will certainly be used in the Department. I won't guarantee whether we can get it into the record.

Are there other comments?

MR. SMITH: Microphone 18.

Mr. Secretary, I hesitate at this time to say this, but I think I should because I feel it very strongly. I think the time has passed when business and industry is making decisions based upon the assumption there will be 10 percent inflation. The time has passed when we can merely point at a few relatively minor things, all of them important and say to other people you do something to adjust.

We have not faced today and I have not heard any comments at all on the importance of anti-competitive activity. Now, I don't think that in this time and age that we can just sweep that under the rug. It has got to be an important factor in inflation today.

When I talk to businessmen who are unable to get a product because the company from which they have been getting their product has expanded their own companies, their own affiliates or their being told to exchange stock with us, or you will go out of business. It is an important factor and I really am kind of disappointed although I think that the conference has been very good. It has been very well run. The format is very good.

I am disappointed I have not heard anybody address this very specific and important question.

SECRETARY DENT: Yes, Mrs. Peterson.

MRS. PETERSON: Thank you, Mr. Smith because it is one of the ideas that many consumer groups especially are feeling very strongly about -- the anti-competitive feeling.

The other thing that I just wanted to raise briefly since it was mentioned today is running through all of our discussions is the need of telling people and understanding and developing the communication. In this area, I would like to say that I think it is important for us to look positively at this consumer advocacy bill which I feel it was mentioned today, which would really help to set up a dialogue in a orderly procedure to help us get out of our boxes and get talking with each other and I think we want to look at any

new mechanism that we can along that line.

SECRETARY DENT: Thank you.

Mr. Sarnoff.

MR. SARNOFF: Mike 25.

I think one of the answers to Mr. Smith is not in vague charges of anti-competitive action but to increase the supply because our problem is shortage of supply. Those things will take care of themselves if we get supplies and get rid of the shortages.

SECRETARY DENT: Thank you.

MR. KELLY: Just a brief footnote to Senator Nunn's recent statement on productivity if I might return briefly to that.

It is related to the dialogue theme also.

I am chairman of the Governmental Relations Committee of the American Assembly of the American Schools of Business. Just last week a group met in Washington to explore the question as to how the nation's business schools might match up with government and others in attempting to explore some of these matters of mutual concern, including productivity issues and research and instruction.

So, what you are doing might well be the kind of pattern that many of the country's 150 accredited business schools might look at.

As perhaps a final thought, since the microphone is on here, I just would like to express the hope that the planners of this conference will do everything possible to ensure that this kind of industry-government dialogue continues. This was a note expressed by Doctor Fellner last evening. I think this kind of exchange involving not only industry and government but the total spectrum of American society, is potentially very, very fruitful as we confront this important national problem which I personally think is going to be with us in its present level of intensity for several years.

So, I think our planning could well be taken in that time frame and the effort made to broaden the dialogue, broaden the discussion to get as many segments of the American society involved as we can beyond this summit.

SECRETARY DENT: Thank you, Dean.

We might for a minute and a half each ask the Congressional hosts if they would like to comment on what they have heard today and how the meeting has done.

SENATOR BEALL: Thank you, Mr. Secretary.

A minute and a half for a member of the U.S. Senate is hardly time to say goodbye.

(Laughter.)

SECRETARY DENT: I am glad you got the message.

SENATOR BEALL: I find this has been a very useful exchange. This has accomplished its purpose, I think, in giving us some insight to the feelings of those who are outside the city of Washington and who have a unique contribution to make because of their own experiences and because they deal with problems firsthand and it has given us some new ideas.

Not all of our questions have been answered. I didn't get an answer to my question about the taxes but I have welcomed this exchange and I am sure as a result of these meetings that are taking place across the country and the summit at the latter part of the month, should serve a most useful purpose.

SECRETARY DENT: Thank you very much.

Senator Nunn.

SENATOR NUNN: Thank you very much, Mr. Secretary. I have thoroughly enjoyed being here. I have leard an awful lot.

I think Mr. Harper summed up the meeting on the four main areas where there appeared to be an emerging kind of consensus. I would say the real benefits of the summit as a whole which those who sponsored this resolution had in mind are not just substantive answers but perhaps more important at least in the long-run a real dialogue with the American people. If there is one area where we need this on the complexities facing our country as well as the international wrodl community, it is in the area of the economy. I hope

I hope this meeting is well reported in the media and I hope the media will begin an intensive kind of effort to deal with all sides of very complex question so there will become a growing kind of dialogue. If we do that alone, I think the economic problems will be close to becoming solved.

SECRETARY DENT: Thank you.

Senator Taft.

SENATOR TAFT: This meeting has been very helpful and, in a way, a little bit upsetting.

I think I sense a sense of crisis among members of the business community which have not come home as individually as might have before this meeting. Hopefully, this will be reflected early in meaningful action in the governmental sector.

I would mention one item to which I felt we did not get an answer. I raised it without pressing it and perhaps I should have pressed it more, and that is the control of credit if we do change monetary policy.

SECRETARY DENT: Thank you.

Senator Ribicoff.

SENATOR RIBICOFF: Mr. Secretary, I am very much impressed with this meeting. I disagree with those who say you have to involve the people they don't know.

As a man up for re-election who is home every weekend talking to people and making a point to visit the supermarket to do the weekly shopping with my wife, I can tell you there is a great deal of commonsense and intelligence in every phase of American society. They know what it is all about and they understand the seriousness of inflation.

I would hope that, Mr. Secretary, you would take home to the President and this Administration the necessity to eliminate the idea that we can wait until July 4, 1976 to solve the problem of inflation. This country can't wait and neither will the people wait.

I also reject completely that we wait until the next session of Congress to move upon the problems that we must address on ths legislative basis. I would hope that after the 27th and 28th of September, President Ford would present to the Congress of the United States a program for action and insist that the Congress of the United States stay in session and pass it.

SECRETARY DENT: Thank you very much, Senator Ribicoff.

Mr. Brown of Michigan.

CONGRESSMAN BROWN: Thank you, Mr. Secretary.

I think it has been a very helpful meeting. We did not get into discussion of one of the things I think we should have discussed, and that is the real value of the monitoring or jawboning, however you want to refer to it, proposed for the wage and price stabilization council. I have favored that in the past. I am beginning to wonder if that is not just a contributory factor to the extent you constantly keep pressure on prices, et cetera, to keep them down, don't just build up a head of steam to make sure they will keep on going up. If you can set your prices anywhere and labor could set its prices and the Federal Government agreed it could balance the budget for the next three years, not touch your tax structures for three years, not impose a new regulatory obligation upon you, wouldn't that have the

greatest inflationary impact or anything we could do in any case.

It has been a pleasure being with you.

SECRETARY DENT: Thank you.

Mr. Smith of Iowa.

CONGRESSMAN SMITH: I want to say this has been a very useful meeting. I do feel that every group in the economy still wants other groups to do more than they have to, and I don't think this is any exception. However, I do detect also a willingness in all groups, including this group--and I hope it is true--to do their fair share if some kind of a rational, reasonable, balanced program is adopted. I believe that is the case and I want to compliment you, Mr. Secretary, on the handling of the meeting.

SECRETARY DENT: Thank you, Mr. Smith.

Mr. Conable of New York.

CONGRESSMAN CONABLE: Everything points toward complexity as I look toward the results of this meeting. Infltion can be simple but obviously this one is not. I can see four easily identifiable types of inflation: first, the classical demand and supply situation where we have put too much on the demand side and not enough on the supply side, quite probably.

Secondly, the negotiated and administered type of inflation where you can have cost/push as a result of labor power that goes beyond productivity or as a result of administered prices where the market is imperfect.

A third element of inflation here is imported inflation--what happens when cartels put up the price of raw materials. We are going to have to deal with that, and I think it is going to be very difficult.

Of course, the fourth is mandated inflation w h e r e government performs uneconomic but desirable services for the people which carry with them economic costs which freequently are imperfectly considered in the

course of the legislative process.

All these are elements. We are going to have to look at them all and ascribe to them some role, some corrective action which perhaps will help us improve a situation which obviously is going to be very difficult to deal with in any short, easy or comfortable way.

Than, you very distinguished members of the business community for coming here and advising us today.

SECRETARY DENT: Mr. Moorehead.

CONGRESSMAN MOOREHEAD: Thank you, Mr. Secretary.

This meeting gives me a great deal of optimism for the future. If an array of talent of you ladies and gentlemen would take the time for your private concerns which have to be your primary concerns to come and share the benefit of your experience and wisdom with us, I think we can find a solution, and I think that all of you are to be greatly thanked by the congressional delegation.

My second point is I have been in the Congress a number of years and have heard chairmen preside over the full House of Representatives and committees and subcommittees, but I have never seen a job of presiding done more efficiently, fairly and effectively than was done by the Secretary of Commerce, and I think all of us owe him a round of applause.

[Applause.]

SECRETARY DENT: Thank you very much.

I do want to express deepest appreciation to our congressional co-hosts and to each participant. Everyone has made a substantial, very beneficial contribution to this meeting. We will carry it forward and look forward to seeing you in Washington at the summit on September 27th and 28th.

Thank you all so much.

[The conference was adjourned at 4:28 p.m.]

FOR IMMEDIATE RELEASE THURSDAY, SEPTEMBER 19, 1974

UNITED STATES DEPARTMENT OF COMMERCE

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BUSINESS AND MANUFACTURING CONFERENCE ON INFLATION

DETROIT, MICHIGAN

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SECRETARY DENT: Ladies and gentlemen, the United States has a strong and great economy. Today, that economy is in trouble. It is our purpose in this meeting to find out why it is in trouble and what we can do about it.

We are interested in original ideas.

We are interested in the wisdom of the time-tested ideas.

We are interested in any ideas which will promote jobs and profits, the key ingredients of American prosperity.

Inflation is creating phantom profits and pay increases that buy less.

The essential ingredient in any successful attack on inflation is that the people and the government be on the same wave length. Thus, we seek to stimulate public participation in the development and support of a battle plan against inflation.

It is logical that a conference of business and industry should be held in a great industrial state such as Michigan and in a city whose name is synonymous with the industrial might of America -- Detroit.

I extend a welcome on behalf of President Ford and the Congress, the co-hosts of this meeting, to the delegates invited from business and industry and to members of the public and press who are here with us today. Those from the public who desire to participate are invited to submit written presentations which will be part of the permanent public record and considered for the Washington Summit September 27 and 28.

At this time, I would like to introduce Congressman Barber Conable of New York, who will extend a greeting on behalf of his congressional colleagues.

MR. CONABLE: Thank you, Mr. Secretary.

I am sorry that Mrs. Griffiths is not here, she is a very distinguished member of the House from Detroit and was supposed to make these remarks in greeing that I am now going to try to make.

I would like to thank the very distinguished members from the business and labor community who are here this morning. I know there is a certain cynicism about government at this point and that many of you have come in the hope that you can be constructive with the sad feeling that perhaps this may be window-dressing -- I want to assure you that it is not. Not only the Members of the Congress present here, but everyone in the government is deadly serious about the great need to get this desperate economic condition under control in some way, and we know that while decisions can be made by three or four people sitting in a room somewhere at this stage, public support and public understanding must be solicited and marshalled if we are going to have any effect.

Those of you who are out in the trenches know it great deal more about this and know the instinctively much more practically than we in government. We have got to approach it from a partnership point of view. If you feel that your attendance here this morning is academic, I challenge you to come up with some good ideas or to restate the conventional wisdom and ways that we can take hold of it and implement it, and you will see.

Secretary Dent has already held one of these meetings in Pittsburgh and it was a very successful meeting, the spirit that actuated it was one of extremely constructive effort on all parts and I know that you will give him the cooperation that the business and labor leaders did in Pittsburgh.

I know also that he has a very tight schedule to follow here today and that there are a great many people who

must participate so I thank you with these few brief remarks.

SECRETARY DENT: Thank you, Barber.

The next order of business is a presentation on the economy by Dr. William Fellner, member of the Council of Economic Advisors.

MR. FELLNER: Mr. Secretary, distinguished Members of Congress, distinguished delegates, I will give you a very brief presentation of how the outlook is appraised by the Council of Economic Advisors at the present time.

We feel convinced we have to go through an uncomfortable period of adjustment to get back to normalcy but nothing one would call a crisis is in the offing unless serious mistakes are made which it is quite possible to avoid. Contacts with persons of experience and judgement in various occupations are essential to make sure that such mistakes are indeed avoided and that all useful ideas get a hearing. The present conference and others like it are intended to serve this important purpose.

We all recognize that tensions in the credit markets of the world belong among the troublesome features of the present situation. A tighter fiscal policy than that which we have had can make a considerable contribution to easing credit in our own markets and the Administration is determined to make a strong effort in that direction.

As concerns the outlook for the immediate future, we expect little change in the real output during the remainder of the year and early in 1975.

Also, partly as a result of less favorable crop prospects than had been hoped for, we expect that the reduction of the rate of general price increase will be slow. But given the necessary restraint in shaping our monetary and fiscal policies, the inflation rate should start decelerating appreciably once the raw-material price increases have worked their way through the price structure. This will in fact be so unless in the meantime the money wage trend should accelerate in such a way as to block the restoration of healthy real wage trends through a sufficient reduction of the rate of price increase. It is in the common interest of all elements in the population to avoid such a self-defeating money wage and price escalation. All responsible decision makers are fully aware of this.

Finding the proper cure requires the correct diagnosis. The present situation has developed because here as well as in the countries abroad policy-makers were under great pressure to accommodate developments which

brought inflationary gains in the shortrun but were very costly in the somewhat longer run. This is how it happened everywhere, though the specific forms of manifestation of the process were different in the various countries.

For a while it seemed to work because the public underestimated the inflation rate, and under the influence of steeply rising money incomes it has entered into commitments in the expectation of more real income than was available. The "real" equivalents of high money incomes have turned out to be less than had been expected.

This has been true particularly during the past few years when so many countries, including the United States, suffered a deterioration of their terms of trade with the rest of the world and when, in addition, the nonfarm sector's terms of trade with the farm sector were worsening. No appraisal of our recent wage or profit trends makes sense unless we correct for inflation and if we do so we find that both the wage and the profit trends have been distinctly disappointing for the typical wage-earner, on the one hand, and the typical employer on the other.

Mr. Secretary, in an informal discussion as you may remember the question came up how some figures, which I gave without going into details, compare with some figures that were published by other agencies and perhaps I will add a few sentences to this.

The data can be reconstructed on wages with great ease. Real wage trends have been relatively weak for a number of years as compared to past experience, and the very exceptional situation that real wages actually declined occurred during the past year. Profit data needs to be examined somewhat more closely to arrive at some acceptable conclusions, some realistic conclusion on this, and various figures are around on that.

I checked on this between last night and now because some numerical questions came up. I think there is no contradiction between what other agencies said and what I suggested yesterday. But let me say if you compare 1965 with 1973 and you eliminate the book profits which developed through inventory revaluation and those which developed as

a result of the difference between historical cost depreciation and replacement cost depreciation, which for a non-shrinking enterprise are unrealized capital gains of an inflationary period. Then you observe a steep downtrend.

If you eliminate those two and look at profits after taxes and compare 1973 with 1965, you get a reduction of about 15 percent provided you use the method which gives you the smallest reduction, one of four or five methods which you can use, and this is nominal profits, not corrected for price change and not adjusted for the fact that a much larger capital stock was at work in 1973.

Now, if you also adjust for price changes then, of course, you get a larger decline. If you make none of those adjustements, profits have risen substantially, perhaps about 45 percent. They have risen much less if you do make the adjustment for inventory revaluation but not for the difference between historical costs and replacement costs.

I don't think there is any contradiction between these data and those you may have seen published elsewhere and of which I am aware.

So, real wage trends and profit trends have been quite disappointing for the wage-earners and the employers respectively.

I want to refer once more to the May 1974 issue of the Survey of Current Business. Those figures need to be updated which I think is very easy to do if you ask for the data from the Department of Commerce.

The upshot of the matter is that the inflation rate was underestimated, that commitments were entered into in the expectation of better real incomes than were available and that this is obviously a process that cannot be continued forever. People wake up to what is happening. We have to have this period of adjustment. The process has lasted for some time. It won't be a very rapid deceleration either but it needs to be accomplished.

During this inevitable period of adjustment we shall have our trouble spots. We must, of course, find means for not letting matters get out of hand while we are moving toward a condition in which we shall again have high employment, good growth rates and an acceptable behavior of the price level.

But, responsible policies must take account not only of what is going to happen tomorrow but also of the aftermath. It is imperative to avoid measures that would appear to reduce difficulties for a short while but would face us with even greater difficulties subsequently. This is the main lesson to be learned from the recent experience in the United States and also in other countries.

We must take care of our trouble spots as well as we can but without thereby making it impossible to get an appreciable deceleration of the price increases within a reasonable period even if not immediately.

Thank you very much, Mr. Secretary.

SECRETARY DENT: Thank you, Dr. Fellner.

Our next presentation is by an Associate Director, Office of Management and Budget, who will outline for us the federal budget. Mr. Walter Scott.

MR. SCOTT: Thank you, Mr. Secretary. Obviously any program to deal with inflation, one of the key elements is clearly the budget policy. This is one of the principal policy tools that the President and the Congress have to work with and a tool which has received obviously considerable viewing broadly as one of the elements that must be brought into better control if in fact we are to deal with the factors causing inflation.

I will try to quickly take you through some of the elements of the expenditure side of the budget in an effort to try to give you a better understanding of where we are in the budget, a little bit what has happened to get us there and some of the practical and political problems that are alive in our efforts to in fact cut back a level of expenditures.

I believe there have been distributed to each of you a series of six charts which I would like to go through with you with a few brief charts if you will pull those out.

The first chart shows the federal budget outlays from 1961 to 1975 in current and constant 1975 dollars. We have used constant 1975 dollars in order that we are talking in terms of the $300 billion and through $300 billion levels of the budget that we are dealing with today.

As you can see from this chart, federal outlays and current dollars have tripled over the past decade and a half. In the first 150 years of our country we spent $100 billion; in 1961 we spent $100 billion, part of the federal government.

Now, 15 years later the figure will be approximately $300 billion. The growth in federal outlays look quite different when you consider the impact of rising prices. In constant 1975 dollars, federal outlays rose by 50 percent from 1961 to 1968 and have remained relatively constant since that time.

Now, let's move on to the next chart which lays out federal outlays as a percent of GNP. Over the 15-year period federal outlays as a percentage of GNP have raised from 15.1 percent to 21.6 percent. Again, the guns and butter year of 1968 marked the high period of when we were getting in close to 22 percent.

While the proportion of GNP the government spends declined somewhat since 1968, it has not gone back to the levels of the early 1960's. If the efforts to cut the budget this year are successful, that increase in the 1975 side could be flattened out.

Let's move on to the next chart, if you will. This chart shows the composition of federal outlays over this 15-year period. As you can see, the relatively flat constant budget from 1968 to 1975 has massed substantial changes that have taken place in spending.

Essentially the rundown and reduction in defense expenditures as a result of the disengagement in Viet Nam have provided dollars which have permitted us to expand many of the social kinds of programs that are involved, payments to individuals as well as grants.

The 1975 budget level of deficit spending is lower than at any time since before the Korean build-up, from 46 percent of the budget in 1961 to 29 percent in 1975. Military manpower and uniform has been reduced from the high of 3-1/2 million men in 1968 down to 2.4 million in 1974, the lowest rate since 1950.

Payments to individuals are now the largest category in the budget, having increased from 27 percent in 1961 up to 54 percnet in 1975. In constant prices, payments to individuals are nearly triple what they were in 1961.

Real federal grants to state and local governments rose almost 300 percent from 1961 to 1973 and since 1973 have remained relatively constant.

Real outlays for interest and other non-deficit rose 44 percent between 1961 and 1968 and since then they have

declined steadily and are now below the 1961 levels. This reflects decreases in spending for the space in foreign aid increases in the same of offshore oil lands which are called in the federal jargon, a negative expenditure in order to confuse the innocent perhaps and also a further factor in terms of this figure going down somewhat has been the removal of a number of agencies from the budget totals. Obviously an offsetting factor has been the increase in interest expenses which have taken place during this period.

Now, let's move further into the composition of the budget. The next chart, an understanding of what must be done if we are in fact to be successful in balancing the budget in 1976 and moving through the $300 billion figure for fiscal 1975. I hope this will give you an idea of the kind of budget momentem we are dealing with.

The small cuts today can result in substantial reductions in expenditures in the years ahead. The commitments we are honoring today are commitments we have made in previous years.

This is the budget and it is a somewhat unusual way to look at it, but it may characterize the program to some extent and give you an idea of the problems we are going to be confronting in Washington as we attempt to come to grips with this difficult problem.

Under mandatory spending, the first category is contractual obligations. These represent, as you can see, about a quarter of the budget. This includes interest on the federal debt as well as a variety of contractual obligations which havE been entered into in previous years.

If in fact we are to reduce any of these, we would have to either reneg on contracts, we would have to ask for unilateral reopening of contracts and essentially the costs of doing any of these things would obviously be very substantial and in fact quite possibly hurt the government's credit so this is a particularly difficult area to deal with.

The next major category here is Entitlement Programs which are close to half of the budget. These include largely benefits programs to individuals such as Social Security,

Medicare, Medicaid, general revenue sharing programs of that kind. Essentially they are set any person or government instrumentality that qualifies under the law as it is established and presents itself in filling out the proper forms receiving this payment.

The levels of payment as well as the entitlements are set in line. Therefore, any changes to reduce this figure must be the result of newly enacted or modified laws.

As you can see, these two very difficult areas to come to grips with total about 70 percent of the budget which is relatively uncontrollable under existing laws, contractual obligations.

The remaining 30 percent, we have more flexibility with. As you can see, of the remaining 30 percent or $90-odd million, about 60 percent is in defense outlays. Most of these are in personnel costs. Any substantial change within those figures would in fact result in basic changes in our troop structure abroad.

As most of you are aware, Congress has in fact come out of conference nwo with defense approapriations which will reduce this figure by about $1.7 to $1.8 billion. The authorization as I reall was reduced $4-1/2 billion but this will translate into expenditures this year of about $1.7 to $1.8 billion.

The moving on to the non-defense area where we have about $35 billion available where we have wide discretion in terms of the cutting of these figures, most of this also as you can see is in personnel costs. As you may be aware, we have just initiated a cutback in federal personnel by $40,000 which will save us $300 million this year.

Also, it may be worth mentioning that the size of the federal government establishment on the civillian side now is approximately the same level as it was in the late 1940's. Just because it may be of interest to you on the other side, the employment in state and local governments during this same period has moved from approximately 3 million people up to something over 11 million people so that as you can see there has been a considerable shifting in terms

of the services being performed within our country from the federal to the state and local establishments.

The growth in the federal government has not been in the performance of services but more in the form of transfer payments as you can see from those earlier charts.

The final item here on this chart as I say is the negative outlays, the offsets which are included here which are included here which include the sales of offshore oil lands as well as employer contributions and employee retirement trusts and so on.

Now, to move on to the next chart, most of the cuts for 1975 and 1976 essentially have to come in two areas or the easiest or the biggest pieces are in two areas.

First, lets talk aboutthe entitlement programs. Let's talk about discretionary non-defense outlays first.

This takes the principal programs which were included inthe 15.1 figure over which we have relatively wide discretion. As you can see in these discretionary programs have related to health and welfare items of this kind.

Also, we have programs such as atomic energy heavily related to the project independence, the federal aid to highways to give you an idea of how these figures come about. The federal aid highway program this year in the budget is $4.6 billion in authorization. Of that $4.6 billion, if we cut it to zero this year it would save us $700 million because in fact the program as you know would actually outlay over a number of years - five or six years as the actual construction would take place.

Hopefully, this gives you a little idea that there is not even within this $15 figure -- it is going to be a very, very painful effort to come to grips with it.

The second area we have to look at relates to thenext chart which coversthe various kinds of entitlement programs. Benefit payments to individuals account for 94 percent of the outlays. Obviously, this is a very difficult area to cut and particularly so because two-thirds of these payments arepaid to individuals for retirements or for medicare. Obviously, these are the people hurt most by inflation and it gives us great pause as we come to grips looking at these programs.

I hope this brief overview gives you a little sense of what the budget is about and a perspective on the difficulties we are facing as we try to deal with coming up with substantial cuts in it. It is going to require inordinate discipline on the part of the Executive and Legislative Branches to come in with substantially reduced expenditures. It is going to require the support of the public as well as business, labor and the other factors in our economy if we are in fact going to be successful inthis very important effort.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Scott.

As you know, the purpose of our meeting today is for the government to receive the suggestions of the private sector. I would like to be sure all of you are aware of your hosts and would like to introduce at the far end of this table, Congressman William Ford of Michigan. To his left, Congressman Lucien Nedzi of Michigan. To my right, Congresswoman Martha Griffiths of Michigan. To my left, you have met Barber Conable. On his left, Representative Gary Brown of Michigan. On his left, Congressman Ben Blackburn of Atlanta, Georgia. On the far left, Congressman Schuster of Pennsylvania, who, incidentally, left business having previously earned a Ph.D in economics to join the Congress.

From the Executive Branch next to Dr. Fellner, Mr. William Seidman, the Executive Director of the Conference on Inflation. To my right, Mr. Tom Kauper, Deputy Attorney General of the United States, Dr. Russell Peterson, Chairman of the Council of Environmental Quality.

At this time, we would like to move into our program. We would now call on Mr. Stan Smith for the first presentation.

MR. SMITH: Inflation is often defined as too many dollars chasing ---

SECRETARY DENT: I think it would be useful if you mentioned your company also.

MR. SMITH: International Paper.

Inflation is often defined as too many dollars chasing after too few goods. It is therefore vital that we look at both sides of the equation. We recognize the need for both monetary and fiscal restraint but we endorse the call for a different mix, some moderation of the tight money policy lest we precipitate a liquidity crisis, coupled with an increase in fiscal restraint.

High interest rates particularly impact housing andthe capital intensive and regulated industries, the very groups that need economic encouragement. However, I wish to put major emphasis on the need for increasing productive capacity in order to overcome the too few goods element in the inflation equation.

Such an approach may appear as a longer term solution, but its impact is so certain that it may well bring about a cure faster than most palliatives being prescribed.

There are three basic causes of most shortages in the economy: 1) inadequate profit levels over many years have slowed capacity expansions in the basic commodities; 2) price controls virtually stopped all expansion because they did not permit the return on investment needed to justify new capacity; 3) tax approaches have not recognized the depreciation levels required to cope with the inflated construction costs. Such tax approaches add to inflation, both because they reduce investment in new capacity and because whatever investment is made must be made from retained earnings and thus reflected in the price structure.

What needs to be done to promote capital investment? Most important is an attitudinal change regarding profits. We must recognize that the higher the profits the higher the possible levels of our investment. The more investment, the more jobs and the more capacity to overcome the shortages that feed inflation.

Next we need to be sure that we do not again embark on the noble experiment of wage and price controls. Far from solving the problems of inflation, controls fueled it by widening the gap between supply and demand.

Additionally, we need to be vigilant to be sure that the new monitoring agency does not accrue mandatory powers.

Third, we need to enact tax policies which will stimulate capital investment andtherefore increase both jobs and the supply of goods. Such approaches as accelerated depreciation, increased investment tax credit, expensing of safety and pollution control equipment and reduction inthe capital gains tax to improve the equity market should all have priority consideration. These proposals are grounded in the fundamental that investment in productivity and new capacity is the surest inflation remedy.

Thank you.

SECRETARY DENT: Thank you very much, Mr. Smith. You have gotten us off to a good start.

I now call on Mr. Norman Scott.

MR. SCOTT: American President Lines.

The general cargo ocean transportation or liner business is unlike most of all others represented here this morning -- a service industry. In spite of the excessiveinflation typified by a fourfold increase in the price we pay for fuel oil, the industry enjoys a high degree of profitability in mid-1974.

These operations are expressed in terms of nominal, however, not real profits. As Dr. Fellner pointed out, they are deceptive. We are operating ships today, for example, whose replacement costs are double the value for which they are recorded in our books. In effect, we are supplying services based on partially uninflated costs. We feel this highlights the need for greater productivity in the ocean transportation industry.

Specifically, we feel that there is a need to recognize the encouragement of capital formation by recognizing the rapid increase in the cost of the hardware we need to provide our system -- ships, containers, shore facilities.

These aids can be provided both through the form of tax incentives and also through the recognition of the extremely higher replacement costs for the various elements employed in transportation systems.

The government regulation to which our industry is subjected shouldcontinue to encourage greater productivity. We feel that there must be, for example, a reasonable approach in the maintenance of high environmental standards and similarly in the field of safety.

Finally, there is available to the transportation business a number of means of encouraging greater productivity through arrangements between members of different companies and operators of ships even of deflation. This industry is regulated, as perhaps you know, by the Federal Maritime Commission and this agency does have the means to facilitate that type of improved productivity.

The industry believes very firmly in theneed for a balanced budget. We also endorse a relaxation in the tight monetary controls which we have experienced in the recent past.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Scott.

SECRETARY DENT: Thank you, Mr. Scott.

We call on Mr. Stamper.

MR. STAMPER: Mr. name is Malcolm Stamper. I am from the Boeing Company.

We view the problems we face as profound and complex -- not subject to short term fixes. We feel there is a need to guard against the temptation to oversimplify and accept expedient and political solutions.

As an example of oversimplification let's take the case of exim bank financing of exports. Those who oppose it, claim it swells profits of multinational companies at the expense of American jobs. I won't attempt to speak to the multinational's position on this because in our case we are a domestic company -- but the impact on our company and community is clear.

Not long ago they were talking about turning the lights out in Seattle. We had over 12 percent unemployed. Now it has improved to a still high eight percent. A major part of that improvement is the result of increased sales of our commercial aircraft overseas. These sales have not only created countless highly skilled American jobs for us, but also for our suppliers throughout the nation, it has also allowed us to contribute substantially to U.S. balance of trade. Hamper our ability to sell overseas by changing exim bank support, to fix other problems, if they exist, and you, in effect, throw the baby out with the bath water.

Another case is the area of tax incentives. It is claimed that they are no more than subsidies to business designed to fatten profits. I can't speak to all their impacts, but I can speak to their effects on us. Our industry needs all the help it can get to increase capital formation we need so that domestic airlines can buy our products, so that our suppliers can expand to reduce shortages and flow times, so that we can finance the research and development and plant and equipment needed to stay competitive in the international market -- which we currently dominate. Moving hastily in this area, in our case, can seriously effect both trade balances and American jobs.

Turning to productivity, and the role business plays in the phenomena of inflationary cost-price spiraling. Perhaps we should, as businessmen, reexamine all of the options open to us to maintain adequate profits, without unfuly raising prices.

Assuming constraint by labor in wage demands, should we turn up the gain in exploring the other opportunities we have for reducing costs? Should we ask ourselves if we have done enough in designing our products for producibility -- or developing improved processes toward the same end -- are we aggressive enough in developing and marketing our products overseas -- have we cracked down sufficiently on the practice of stockpiling scarce materials that fuel inflation -- are we optimizing inventory control to ease the pressure on capital requirements?

Have we done enough in reducing management and overhead at all levels, perhaps not. In my view there are still opportunities to comtribute more.

Finally, as we join with all segments of the economy in the fight against our number one domestic problem let's hang tough for real answers and resist attempts to oversimplify complicated problems or to accept substitutes for sound business practices that, in the end, can only prolong the economic hardship and problems that face the nation.

Thank you.

SECRETARY DENT: Thank you very much.

We now call on Mr. Riccardo.

MR. RICCARDO: John Riccardo, Chrysler Corporation.

This country now faces runaway inflation, a serious shortage of basic commodities and raw materials, and a distorted international trade structure. With the money markets running dry, industry cannot secure the trillions of dollars required to develop additional manufacturing capacity, find new sources of raw materials, replace outmoded plant and equipment, and improve productivity.

It is essential that we meet these objectives simply to keep the free world's economic engine functioning. But while we struggle to raise this needed capital, government is rushing to impose on us costly, and sometimes non-productive programs. In many cases, these new regulations only tighten the already

stringent regulations now on the books. These minimal gains are very costly.

For example, the total cost to industry of meeting clean air and water standards is estimated to be about $60 billion. In the case of the U.S. automobile industry, the cost of proposed safety, noise, damageability, and fuel economy standards would cost the public billions more.

While many of these proposals are worthwhile and even highly desirable, some are counterproductive at this time. They divert scarce capital business must have to regain the basic economic strength from which all social progress is made.

We urge government to concentrate on actions that will stimulate the formation of capital. Develop incentives for savings and investment. Reduce federal spending. Balance the federal gudget. At the same time, we urge government to review the numerous programs proposed over the past few years, and establish realistic timetables based on proven need, and consistent with the capital now available. For example, it is generally agreed that present automotive safety and emmissions regulations are adequate to safetuard the public health and welfare at least through the end of the decade.

The need to reorder priorities is especially urgent in the automobile industry, which is the basic source of income for one of every six wage earners in the United States.

SECRETARY DENT: We now call on Ralph Lazarus.

MR. LAZARUS: Ralph Lazarus, Federated Department Stores.

Mr. Secretary, I appreciate the opportunity to appear here today.

Inflation is clearly America's number one problem. We must agree as a nation to a course of positive action and then carry it out consistently and energetically. One caution, however, in our zeal to conquer inflation we must not be so headstrong that we bring on a major recession.

Generally, we should attack the problem on three broad fronts. We should strive for a balanced federal budget. We should positively encourage a major increase in personal savings and investment. And, we should increase the country's productivity capacity.

The control of inflation will require that government, business, labor and the consumer shoulder the burden equitably. Economic statesmanship must come before politics as usual or business as usual.

I would suggest these guidelines. It must not restrict demand in such a way that would discourage expanded production. We must encourage a substantial expansion of productivity. We must develop a major increase in our industrial and resource producing base. Inefficiencies and inequities in our financial system which discourage investment must be eliminated. The Government of the United States must adopt as a continuing program the objective of a federal budget in relative balance.

The federal reserve should set as its goal a steady, consistent growth in money which will not finance inflationary pressures or encourage inflationary psychology.

The United States has to exercise its leadership responsibilities in the free world and promote a cooperative approach to our mutual economic problems.

Now, for the specific actions I would suggest:

If at all possible, the Administration and Congress should commit publicly to a position that in the fiscal year 1975, expenditures in the unified budget will be held below $300 billion. Most more, I believe the Administration and Congress should adopt as a long-range commitment the position that expenditures in the unified budget in future years should not be permitted to exceed their 1976 proportion of national income. If this limit is exceeded, then it must be offset by new taxes.

In Monetary Policy the Federal Reserve must move gradually and consistently to accelerate money growth. This should be done at a pace consistent with the tempo of change in the unified Federal Budget as it approaches balance in the

fiscal year 1976.

However, recognition must be given to the conditions presently prevailing in the nation's financial system. Interest rates are at extraordinary levels. Capital markets are increasingly disorganized. Financial institutions, are experiencing severe disintermediation. It would be extremely unwise for monetary policy to move precipitously toward either restraint or stimulus.

Fiscal and monetary policies in the months ahead must act in concert if inflation and financial distortion are to be ameliorated without severe damage to our economic system.

Business and industry should make every effort toexpand production and increase productivity. To assist this we should perhaps consider changes in taxation to encourage expansion of productive capacity. In addition to the precedent incentives, I would suggest a temporary 10 percent surtax on allcorporate profits. This surtax would be remitted fully to corporations which in the twelve months following the year covered by the surtax, invest or commit to invest an amount equal to their surtax liabilities in plant or in equipment which improves either productivity or expands product capacity.

In order to insure that incremental productive investment occurs, corporations would be required in the years covered to maintain their 1972-73 proportion of capital spending to pre-tax profits before qualifying for remission of the ten percent surtax.

As to the consumer, we should adopt policies that will help us achieve a fair balance between spending and saving. We should consider exemptions of interest earned by families and individuals up to an annual limit of $750 or 10 percent of their adjusted gross income, whichever is less. Those families or individuals with annual incomes under $750 could be given a tax credit for the interest earned.

We might also consider ending the deductibility of interest paid by consumers on short-term installment debt. Fundamentally, this recommendation is made to recognize the need to eliminate existing disincentives to saving in the tax law. As these laws now stand, interest paid in the process of consumption is subsidized while interest earned through savings is penalized.

This measure should not only treat the small saver more equitably, but would encourage reduced consumption at the taxpayer's option and perhaps more importantly also create a possible source of additional long-range funding for investment

Congress should study the desirability of making inflation accounting mandatory -- such things as LIFO and replacement depreciation.

This would allow individual companies to generate its own capital to finance the inflation segment of its inventory and maintain the efficiency of its plant. If loss of government receipts from corporate profits throw the federal budget out of balance, then the corporate tax rate should be increased to offset it. The government should also allow corporations to report loss of earnings because of inflationary accounting to its shareholders.

Finally, I believe that the United States should reaffirm its commitment to cooperate in the international economic affairs. Leadership must be demonstrated in such vital areas as monetary reform, trade liberalization and resource development.

I might add that I agree with Stan Smith that price and wage controls will not be effective at this stage and they might well be countereffective.

SECRETARY DENT: Thank you, Mr. Lazarus.

MR. KENDALL: Pepsi Company.

I would like to comment on two areas where I think the government can effectively do something and make some suggestions that they effectively stay the hell out of some others.

The only place where you can do anything is in monetary and fiscal policy. I happen to believe the Federal Reserve policy has been a correct policy. I think it should stay onthe course that it is presently on.

I do not think that it has been therate of money supply growth of the Federal Reserve that has caused high interest rates. I happen to think it is high demand for money that has created this problem, not their policy.

I will agree that you are walking on a very tight rope. By the time the Federal Reserve should changetheir policy, it will be recognized by all as too late to change it so it is a tightrope but nevertheless I thinkwe should continue on that. If you look at Federal Reserve policy as a method of lowering interest rates, if you consider that you will probably have to inject $15- to $20 billion into the system to lower interest rates by one and a half or two percent, I think the cost of that inflation is too great andthat we shouldmaintain our present policy.

On fiscal policy, tome it is inconceivable that youtalk about reducing a budget of $3.5 billion by $5 billion and then say that you have to really struggle to do that.

The gentleman from the White House who just made the presentation and said that we should understand the problems of cutting that much out of the budget I don't agree with at all. If you look at the HEW budget, which is the biggest budget in the federal government today, I suggest that you do what has

happened in the private sector for years in the supermarkets where we have a counter that eliminates products that are not needed. You have the checkout counter. If you can't pass that test in the supermarket, your products are eliminated. I suggest we get some cost analysis of some of the projects in HEW and then that you and the Congress back up Secretary Weinberger when he tries to cut out some of the programs that might affect your districts and cause tough political decisions that you have to make.

It is my understanding that he has tried to eliminate over 300 programs this year in HEW and it is now down to where he might get one of them eliminated. I understand one of the Congressmen is trying to stop that.

I think if we maintain Federal Reserve policy and you Congressmen really go to work and do your job along with the Administration in cutting fiscal spending and getting our budget under control that we will make great progress.

My other suggestion is that you stay out of the private sector. I still believe in the free market economy. I think it will take care of itself if you will just leave hands off and I think also we ought to stop considering wage and price controls.

I will certainly agree wage and price controls were initiated by the business community as much as anyone else, but what the businessman really had in mind he thought that meant we were not going to have any wage increases. When the consumer wants wage and price controls, they think that is going to be a decrease in prices.

So, I would suggest we let the free American economy do the job and it will.

Thank you.

SECRETARY DENT: Thank you, Mr. Kendall. We now call on Mr. Wilson Johnson.

MR. JOHNSON: National Federation of Independent business.

Mr. Secretary, we appreciate more than we can say the President's concern in calling this series of meetings and your concern in serving as chairman.

Inflation and its related problems urgently need our immediate attention. NFIB has a membership of over 329,000 independent and small business firms. Based on our latest survey taken in July, our members have cited inflation and their major problem three times as often as any other difficulty including shortages and financing.

Our quarterly random sampling indicates that unchecked inflation has small business on the ropes.

You asked for the thinking of the small business sector in regard to maintaining federal expenditures below $300 billion in fiscal 1975 and also seeking a balanced federal budget or a surplus in fiscal 1976.

Mr. Secretary, I can think of nothing that would do more to instill confidence in the Administration on the part of independent and small business firms than for them to see the federal government puts its fiscal house in order.

Many of the individuals in small business have very little accounting expertise. They do know that they cannot constantly spend more money than they collect. They also feel that if the government has to operate with ever increasing deficit spending, we simply have got too much government.

Over the eyars, it has been the hallmark of good Americanism to live within our income. The small business sector feels that we need men in the Administration in Congress with both the courage and determination to do whatever pruning is necessary to at least insure a balanced federal budget and preferably a surplus.

In consideration of the current levels of federal taxation, we must avoid creating an environment hostile to new investment.

Part of the solution to our problems depend on the development of new productive capacity. Small business is not in a mood for expansion. Sixty-eight percent of our members say now is a bad time to expand. Forty-five percent cite general economic conditions as the primary reasons, while thirty-four percnet specifically point to the difficulty of getting investment financed and eighteen percent blame the cost of construction.

Monetary policy should remain reasonably restrictive, insuring against too rapid an increase in the supply of money. Prices cannot be stabilized as long as monetary growth exceeds the browth in real output.

Galloping inflation desperately needs to be checked so that interest rates can be lowered.

As far as the long-term debt is concerned, the picture is grim. We seem to have come to a point where our first reaction of problems often created by existing relations is to regulate more, not to deregulate.

An overriding objective of Administration policv should be to restore competitive forces whenever possible. It should be our objective to increase our reliance on our market mechanism. All of our experience with price and wage controls tells us that interference with the market does not work.

We recommend that you rely more heavily on the income tax mechanism and less on welfare payments and price supports to bring about the cost-sharing agreed upon in the fight against inflation.

While business must be responsible in any price increases, labor has got to cooperate if we are going to find the answer to a healthy economy. Labor settlements have been short of unbelievable. The pattern seems to be 8 or 9 percnet plus an escallator plus a catch-up in many cases. The steel settlement will probably cost 15 percent this eyar alone. We can fully expect to see this cost passed along in the form of higher prices.

Labor settlements will continue to be a source of inflationary pressure unless new wage increases bear a distinct relationship to real output per man-hour.

Improvement of environmental quality is extremely important, but it cost carries a high price tag.

Mr. Secretary, private enterprise has made mistakes but there has been too much criticism of business. We believe that this has been a psychological deterrent to expansion. America's greatness was created by the productivity ingenuity of free men. The men who built America gave people new jobs, higher wages, better working conditions and cheaper goods than ever before created in the history of man.

Business has done a lot of things right in furnishing jobs. Without business, there would be no jobs. The small business sector alone furnishes 37 million jobs. Our recommendations include greater reliance on the free market for the setting of prices as well as wages, greater restraint on federal spending. We suggest reliance on the tax mechinism to alleviate hardship.

Thank you.

SECRETARY DENT: Thank you, Mr. Johnson.

We now call on Mr. Kaiser.

MR. KAISER: Thank you, Mr. Secretary.

I am Edgar Kaiser, Kaiser Industries.

The following is a listing of what we believe is necessary to deal with the problem of inflation.

Recuce and defer Federal expenditures wherever prudently possible. Mimimum goals should be 2-1/2 percent to three percent. Over the long term -- the Government must live within its means. Budget reduction is essential to inspire public confidence.

Easy monetary policy to bolster the housing and construction industry and selectively tighten it -- to discourage unnecessary consumer spending of discretionary income.

Place unrelenting emphasis on increasing productivity, which is our single strongest anti-inflation weapon.

Increase the investment tax credit to encourage capital investment in those segments of the economy which most need it.

Liberalize depreciation guidelines.

Exclude from personal income taxes a portion of the interest earned from thrift institutions as a stimulus to increase personal savings.

Gradually reduce the capital gains tax to encourage stock purchases by individuals and stimulate productivity of supervision and management.

Provide tax relief for those in the lower income brackets by increasing allowable standard deductions.

Temporarily renew the Federal excise tax on amusement admissions and luxury items.

Re-examine the antitrust laws to determine whether the public interest would be well served by allowing basic materials producers to join together in consortia projects to expand capacity and conserve energy and other limited resources. It is highly preferable to do this by legislation.

Review the broad range of environmental and safety requirements and set priorities for achievement. New time frames should be set for meeting standards of secondary importance so as to conserve capital for productive purposes.

Now, for what we feel should not be done:

We should not return to mandatory wage and price controls which simply bottle up the forces of inflation.

We should not reduce taxes across the board.

Of all the points listed, the one which is most basic to solving inflation is productivity. Each of us, whatever our job, must continually rededicate ourselves to increasing our own productivity.

And -- while the problems of inflation and stagnation are complex, multi-faceted and global -- we must, by our individual and collective actions, kindle a spirit of optimism and hope that they are solvable.

Mr. Secretary, we commend the President and you for initiating these conferences. They force us to give great thought to inflation's causes and the remedies. They focus not only our attention as participants in these sessions but the attention of the entire population and that is the key. The challenges we all face are not someone else's -- they are ours. So, too, must be the solution.

Thank you.

SECRETARY DENT: Thank you, Mr. Kaiser.

I would like to mention it was the resolution of the Congress that the President accepted that initiated these conferences.

We now call on Mr. Markley.

MR. MARKLEY: The Timken Company.

Mr. Secretary, inflation cannot be cured by monetary policy alone. There is a need to change the attitudes of our people.

The average citizen must be given a straight-forward view that demonstrates to him the cost of Government programs. Further, he must be shown that this cost is paid in part by him in the form of taxes or indirectly in the form of inflation or in the cost of the product he buys.

To encourage him to believe that he is getting something for nothing is a disservice.

Government at all levels must be cut back to essential activities only. The income tax structure must be revised so as to encourage saving and encourage investment by individuals and by business in new plants. The practice of playing politics with so-called tax loopholes must be discouraged as this creates a cynicism which works against the objective of encouraging savings and investment.

Improved productivity is the answer to inflation. This can be obtained by capital investment. While we tend to blame a lot on government, business and industry can and must use every effort to be efficient and productive.

There are a lot of things that we can as businessmen do. For instance, just the cost of absenteeism alone, could we correct that, would do a lot to improve the pressures on inflation.

I might say also that it would be easier for business and industry to become more aggressive in this area, if government sets an example.

Every citizen must cooperate. This can happen only if he understands what inflation is all about, and that it applies to him. It would help, Mr. Secretary, if a high ranking government executive would tell it like it is and be supported in a bipartisan way.

Thank you.

SECRETARY DENT: Thank you very much, Mr. Markley.

We now call on Mr. McSwiney.

MR. McSWINEY: The Mead Corporation.

Inflation is rooted deep in our economy. Like "the pill," it is a new dynamic of our time and we must learn to live with it. It arises through struggle for a greater share of our production.

"Net inflation" reports the balance between inflationary and deflationary forces in our economy. The latter are usually only short-term reactions.

Most members of U.S. society have acquired a great skill in asking for more -- and government and management have acquiesced. We Americans pay ourselves more in wages and benefits than we make up through productivity.

Swelling expenditures to improve the quality of life also make heavy demands on our ability to produce. Non-productive "investments" divert capital from productive investments.

We operate a 10 percent inflation system -- plus or minus one percent. The increase from the three percent rate of the early sixties arises chiefly from pay increases and quality-of-life expenditures. Many added inflationary factors are already legislated or contracted for.

Can short-term restrictive monetary policy cure our ills? Not likely; the social cost is too high. What we need are incentives to increase our capacity and productivity. For example? Gradualize the growth in money supply. Make it worth while to save and invest in productivity.

Exempt some interest and divident income from tax. Celebrate the bicentennial. Invest $1976 in America -- tax free. Encourage more dollars for R and D. Skilled scientists and middle managers often bear the brunt of on-and-off policies. Write-off new productive facilities in a hurry.

Grant tax credits for non-productive expenditures for environmental goals.

Encourage natural resource development in the U.S.

Incentives lead to greater forest growth. Set up industry committees to assess what needs to be done. Wipe out non-productive regulations. Make industry and Congress more credible sources of information.

How can we allocate resources fairly under high rates of inflation? Sound automatic adjustments or indexes may help. A sound inflation model will reveal all the inputs to the system.

Above all, we need clear incentives to become more productive.

We must develop meaningful long-term counter-measures which will more fairly allocate our resources.

Thank you.

SECRETARY DENT: Thank you, Mr. McSwiney. Mr. Mickel.

MR. MICKEL: Daniel International.

Thank you, Mr. Secretary. Obviously inflation has many roots and is fed by world forces. It is so complex that one nation cannot totally solve the problem. However, we must reduce our budget under $300 million and we must obtain a surplus budget in 1976.

We must establish a priority system with specific budget limitations. The monetary aspects are evident but the overwhelming benefit will be in the reactions of the American people to a fiscally responsible givernment.

I do not want to see a tax increase on business. Business must have all the help we can give it to compete in the world arena. Tax credits must be enlarged. Depreciation adjusted and other tax incentives given to at least put our industry on an equal footing with the world.

We msut make it possible to modernize -- to debottleneck -- to increase production with the end result of increasing our wages and living standard by increased individual productivity.

It is the American dream to better one's standard of life -- to educate children -- to buy a new car -- to have liesure time -- to own a home. This is what it is all about.

One of these dreams is about to escape us -- the housing industry, our largest industry -- is facing bankruptcy, and fast. Tens of thousands of developers, contractors, subcontractors, suppliers, real estate companies and lenders are facing liquidation.

Something must be done -- now. We msut give an incentive to get savings back into historic lending cannels such as savings & loans and banks. To do this. we should grant tax exemption on interest earned up to, say, $5,000. Our restrictive monetary policy has helped.

Now the government must get on with restoring confidence in our capital markets. Our Public Serivce Commissions must grant utility increases quickly, based on justified costs.

These two actions would hopefully begin to once more allow the utilities to go to market for funds. The alternative will be of such consequence that our future will be penalized without the means of ever correcting vis-a-vis the world.

Somehow Government must speed up Federal Power Commission and AEC approvals for hydro units and nuclear units. We must rationalize the environmental requirements such as measure smoke stack emissions at people level, not at bird level.

We are in a shortage economy and industry must build capacity to overcome. Oil prices must be brought down. How, I don't know, but the effects will be felt forever in prices and shortages of product. Every material used in construction is touched in some way by the price of oil.

We must increase productivity to fight inflation. Progressive labor leaders must be encouraged to continue to eliminate restrictive work practices. We must revamp our training methods to allow for individual initiative and provide the mans of faster advancement based entirely on a person's ability.

Much is being done in the construction industry -- yet to fully develop this potential we must adopt new and standardized building codes that will encourage, not discourage.

Mr. Secretary, it is time fo stop listening to the prophets of doom, to stop digging our own graves. Let's speak out on what is good about our economy -- our country. We simply have to go back to a great American custom of working like hell to make it happen.

Thank you.

SECRETARY DENT: Thank vou, Mr. Mickel. We now call on Mr. McFarland.

MR. McFARLAND: General Mills.

Mr. Secretary, my recommendations for the crusade to moderate inflation are based upon the reassertion, re-establishment and communication of the principles on which this country was founded and which have made us great.

--- the essentiality of productivity.

--- the importance of thrift and savings.

--- the need to create capital through earning power.

--- the way in which confidnece in the effectiveness of the marketplace helps to balance our complex economic system.

Shortfalls at the immediate short-term approach should be announced soon and concentrated.

I have some charts here which I display simply to indicate that this matter can be communicated and to a sophisticated audience such as this, certainly these are very simplistic. But to the average man on the street, you must understand that he does not understand the term "monetary." He does not understand the term "fiscal." But I believe that this does show the basics creating price stability and the next page quickly shows what happens with inflation when spending increases through government and consumer activities, the money supply is increased creating a demand larger than our ability to supply the goods.

Finally, to recitify the solution comes the heart of my basic four-point program which is the immediate thing I believe should be communicated and understood by the American people.

First it is the matter of fiscal restraint and it requires specifics. In my judgement, it would be advisable to declare a 1975 budget not to exceed $295 billion, including a prospective public works program which I will define in a

moment to care for excessive unemployment, should it develop.

Also, I think the general savings program should be supported by a campaign of the citizen to vote for savers this year, not spenders. A public encouragement of thrift and savings on the part of individuals and renewed energy conservation program which I think has practical aspects as well as attitudinal aspects of creating the right approach on the part of the people.

Secondly is the monetary approach. I think the Fed has done a brillian job to date. It should lessen its intensity and carefully monitor so it has its ability to cange positions in order to avoid illiquidity beofre it arises.

Thirdly, increase productivity which I think should be stimulated by a national conference followed by a public service television approach to encourage such a productivity upturn.

Fourthly, a national public works program which I believe shoudl be designed to alleviate excessive unemployment when it arises. This public works program to be applied against the repetitive disaster areas which the government has often goen through patchwork, non-permanent solutions.

That four-point program combined in the longer term, I believe, with new schedules for depreciation which have been mentioned, tax savings, encouragement for the small investor up to $1,000, a new and progressive liberalized capital gains tax, the elimination of Regulation Q of the Banking Act and provisions for appropriately handling the problems of savings and loans so they may become competitive in the marketplace to attach savings.

A long-range study to assist in eliminating those administrative and regulatory policies and practices within government which are now in effect.

Unequivocal opposition to the reimposition of wage and price controls or export controls and the encouragement of the energy facilities within the country.

Mr. Secretary, I believe the entire American citizenry must be given reassurance and understanding of what the basic causes of inflation are, what the program is to implement to moderate inflation and how it will work against these basic causes.

I propose a series of public service commercials, and I have here and I don't intend for you to see them, I have simply gone through the exercize to show it is possible to communicate what the causes of inflation are and what the program is to inspire public support. I believe this eill eliminate the present concerns, mysteries of the public and replace these with confidence, understanding, conviction and a firm commitment to pursue public plans to moderate inflation.

SECRETARY DENT: Thank you, Mr. McFarland. We suggest your charts be displayed in front of this table during the coffee break and we will make them a part of the permanent record.

We now call on Mr. Chamberlain.

MR. CHAMBERLAIN: President of the American Apparel Manufacturers Association.

Due to our four-minute time limit, I will confine my remarks towhat the Apparel Manufacturers Association feels is its recommendation to the President on a subject which we feel we know: the apparel industry.

The domestic apparel manufacturing industry is one ofthe most competitive labor intense segments of our economy. We have over 22,000 manufacturing units employing over 1,300,000 people. This amounts to one out of every fourteen manufacturing jobs in the United States. Our products constitute one of these ties. They are sold directly tothe American consumer. Therefore, we feel that the apparel industry is a leading indicator of the American economy. The consumer is now telling us that she is buying fewer items of clothing on a more selective basis. Higher apparel pricing caused by the cost-push has resulted in the sale of fewer units.

One of the major ingredients in the cost-push is the record high cost of money. While there is no need to increase capacity in our industry in the present economy, there is a very real need not only to continue to finance our operations, but also to continue the capital expenditures necessary to keep us competitive world markets.

Unless we can obtain operating and capital improvement dollars at less cost, the failure of many apparel firms will create an artificial shortage of apparel supply.

Last week I chaired a meeting at which the majority of the large producers of our industry were in attendance. Almost without exception these manufacturers were tightening their belts, cutting inventories, eliminating marginal units and, yes, reducing work weeks and laying off production workers.

To help cure these ills, the government should immediately take steps toreduce thecost and to increase the supply of money significantly. Hand in hand with this the government should also have incentives to draw equity money into our industry so that the stockholders will stay and/or come into the equity market.

We would further suggestion some technique should be devised to spread bank portfolios to more than the present limited number of coholdings. Investment capital must be attracted again to the equity market.

Controls, regulations and requirements placed on American business have become excessive and has resulted in both greatly increased domestic product prices and in making it extremely difficult for us to compete in the world market. One figure which our industry's prime supplier, the textile mills, are quoting is that over fifty percent of their capital expenditures are being used to conform with environmental regulations. The dollars used to comply with these regulations are not making us more efficient, not helping us hold our prices down and are not making us more competitive in the world market.

Protection requirements must be reasonable and imposed on a measured, long-range basis consistent with needs and with what the economy can afford.

As I mentioned earlier, the apparel industry is a very competitive industry with 22,000 manufacturing units inthe United States. However, in recent years we have been losing units at the rate of approximately

1,000 per year. Therefore, I feel compelled to comment on this subject. Government regulations, standards, reports and red tape are making it impossible for the small-to-medium-sized manufacturer toexist. The government effort seems to be directed toward decreasing competition and increasing concentration. This is an unhealthy attitude. The economic health of our country will improve when the government starts to work with the small-to-medium-sized manufacturer.

Thank you.

SECRETARY DENT: Thank you, Mr. Chamberlain.

We now call on Mr. Ford.

MR. FORD: Henry Ford II, Ford Motor Company.

I think we all agree that inflation is clearly our number one economic problem. If inflation were just an economic problem, it would be easy to control through the classic economic remedies of fiscal and monetary stringency. Unfortunately, fiscal and monetary stringency cause lower incomes, higher unemployment and social stress, and this makes inflation a social and a political problem as well as an economic one.

I believe that the American people will be willing to take the cure even though it hurts if they are convinced that the alternative is worse. The first requirement for success in the fight against inflation is to make people understand that out-of-control inflation cannot be lived with and that there is no quick and painless cure.

Such inflation cannot be lived with because it will destroy our economy if it is not checked. It cannot be cured quickly or painlessly because it is caused primarily by worldwide excessive demands on productive resources and slowing these demands will take time and cause hardship.

A few simple figures tell the story for our company. During the 1973 model year, Ford's costs per vehicle went up about $200 because of labor rates, materials costs and other economic factors. Of that increase, 57 percent was the result of labor cost increases, while 25 percent reflected increases in the prices of materials.

During the 1974 model year, the same factors raised unit costs nearly $600. Only 25 percent of that increase was the result of labor costs while 67 percent was caused by soaring prices for steel, copper, aluminum, plastics, fuels and other materials.

Because these commodities are traded in world markets, U.S. prices will continue to be influenced by world demand and supply as well as by domestic demand and supply. All nations share the responsibility to keep demand in balance with supply, but the major industrial nations and particularly the United States have the largest responsibility because they account for the greater part of world demand.

The longer term outlook for raw materials is critically important for the growth of our economy. I believe it is urgent that a Presidential Commission, like the Paley Commission of 25 years ago, be established to study the nation's long-run requirements for raw materials and the prospects for supply from domestic and overseas sources. Such a study might well indicate the need for new national policies to provide for adequate supplies of materials or the timely development of substitutes for any whose future availability is in doubt.

Curing inflation will take less time -- and cause less hardships and less social and political disruption -- if fiscal and monetary restraint is accompanied by restraint in legislation and regulation that increase costs to consumers and add to the strain on available resources. Even though these mandated uses of additional resources do not show up in the federal budget, they have become a major source of excessive demand.

About 10 percent, as has already been said, of annual capital expenditures, or about $11 billion a year, is now going to meet environmental and safety standards for plants and products. None of these mandatory expenditures increases productivity or adds the capacity needed to relieve shortages and provide more jobs in the future and they do displace investments needed to support economic growth.

Current and proposed new safety, emissions and damageability standards for automotive products for 1976, 1977 and 1978 model cars would add about $750 per car or $8 billion a year to consumer expenditures if we could meet all of them. These standards would also add about two million tons a year to the materials required of the automobile industry, probably would increase gasoline consumption of each new car by about 25 percent, and would require more than $1 billion of fixed investment by Ford Motor Company alone. In total, these increases in demand for materials, energy and capital will generate substantial inflationary pressure.

It is essential that this whole matter of new standards of all kinds affecting costs and capital demand be reviewed at the highest levels of government. My own view is that all but the most urgently needed new standards should be deferred starting January 1, 1975 -- by administrative action, where possible, and by Congressional action, where new standards are mandated by legislation. The deferral should be for at least five years so that long-lead capital expenditures that would otherwise be necessary in the near future can be avoided. This would help also to get inflation under control more quickly by slowing price increases directly, by reducing excessive demand for materials and energy and by releasing capital needed to expand capacity and improve productivity.

Improving public safety and the environment are high priority national goals. During the next few

years, however, major safety and environmental gains willbe produced by standards already in effect. By deferring new standards, we can make a major contribution to the struggle against inflation in return for a minor slowing of safety and environmental progress. In view of the social and economic disruption andthe political strains caused by inflation, I believe we have no other choice.

I say inconclusion that if labor and management and government cannot operate with self-control, I am sure we will get mandatory controls because that will be the demand ofthe consumer.

Thank you.

SECRETARY DENT: Thank you, Mr. Ford.

We call on Mr. Herbert Fisher.

MR. FISHER: James Way Corporation.

Mr. Secretary, thank you for allowing me to speak out not only as chairman of my company, the James Way Corporation, but also as chairman of the mass retailing institutes which through its growing discount department store, members last year sold $36 billion worth of merchandise to almost 40 million families. In the past we have been fortunate to be able to create for the average family of four savings ranging from $135 to $145 per year.

By virtue of self-service, we are continuing to do so but with inflation jet-propelled, as it appears to be, savings of $145 per year become more and more infinite based on the shopper's disposable income. Some industry and inflationary problems are graphically illustrated by these examples.

In the East, utility costs are up 40 percent over last year, now equivalent to almost 50 percent of present net occupacy costs. Paper bags are up 100 percent over last year. Occupancy costs due to rising building costs are up 25 percent. The cost of shopping carts alone is up 50 percent.

Obviously, these costs, unfortunately, must be passed on to the consumer to maintain net profit. These inflationary factors are much higher than the simple 10 to 12 percent double-digit inflation referred to by the economists.

The cure is not simple but the utility companies for one must have the cash and tax advantages to expand research and development facilities. Also, to use alternatives to oil controlled by the Arab nations. If cash is not made available, then we run the risk of seeing our democracy diluted through eventual nationalization of utilities.

Also, encourage cash availability so that the competition can thrive in all facets of industry to maintain competitive pricing, the American way. The Government must lead the way. It cannot be all things to all people regarding high interest rates. This policy has worked up until now, worked well, but it is now working in our opinion to the detriment of shoppers and what is good for the consumer is, of course,

Also, in the area of energy problems there is quite an impact there in increased costs and uncertainty of supply and actual shortages. In response to your specific questions in the agenda, I would like to deal with part of them so far as your policies and actions in the fiscal area. I believe there should be a cut in the proposed federal spending to get the budget under $3 billion with a balanced budget in the area of government regulation.

I think there needs to be a quick re-examination of the cost benefits of some of these government regulations and I very much subscribe to the deferral until some of these reevaluations be done of some of the requirements that are most expensive and detrimental to our industrial segment.

I would like to also add in connection with wage and price controls that these are very damaging, they are damaging and with the benefit of hindsight the original freeze and controls are imposed when we worry about three and five percent inflation. I think most of us wish we were back there again without controls.

In the international area we obviously need better mechanisms to assure a long-term stability of long-term supplies including oil

Mr. Secretary, if I might concentrate my comments now on construction -- my own industry.

Going back to 1970 and 1971 great progress was made in labor management relations in the construction industry. This was originally brought about by presidential action with the creation of CISC, the Construction Industry Stabilization Commission well before the original freeze on the total economy. Great progress was made since then but since May 1974, when CISC was abandoned with the abandoning of all the economic stabilization controls. All the good work that has gone on in this intermediate time has gone down the tubes in my opinion.

Since May through September the average increases of construction wages and fringes has run about 10-1/2 percent. There are cases where one craft got 26 percent in California and in Texas to common laborers got 22 percent.

good for our industry.

The question, I believe, boils down to this: We are going to see our government keeping the wheels of industry churning with constructive policies or are we going to see our government surround our country in the fight against inflation through simplistic and regressive means that deprive millions of our fellow Americans jobs, that could force thousands of companies from the largest to the smallest into the vicious cycle of bankruptcies.

The continued policy of tight money and high interest rates should stop or it will disrupt the American life and serve as a threat to our own society. On the other hand, by releasing money, lowering interest rates, we will install in the hope and the hearts of all people and provide money to keep American industry moving forward.

Thank you.

SECRETARY DENT: Thank you, Mr. Fisher.

We now call on Mr. Bechtel.

MR. BECHTEL: Thank you, Mr. Secretary.

Our economic outlook is difficult and unprecedented. I think we must recognize in looking at solutions that our economy is closely tied to that of the rest of the world and there are no quick, simple or easy solutions.

There are many strong negative forces currently in the United States economy.

I would like to cite three which in my opinion are three of the most important. First is lack of productive capacity particularly for many industrial products.

Secondly, is the impact of government regulations in the environmental protection, safety and consumer protection area.

I hasten to add they are not all bad. They do add substantial costs, losses of profit and increased prices.

These, I believe, are going to create a great problem not only for our own industry in the balance of this year but for all of industry and we are right back where we were in 1969 and 1970 unless something is done very soon about this.

I do not put all the blame on construction labor or the unions. I think our contractors and management are very much in agreement on this matter also, but our industry is so fragmented.

I would like to suggest that there again be personal involvement by the President and the Federal Government. The President called Dr. John Dunlop or Bill Usery to study and establish a Construction Independent Manpower Information Cneter which I can provide more details on.

Secondly, after consultation with the various parts of the industry and the construction users, they try to reestablish some part of tri-party commission.

We have problems in the equipment-material area and in this area it really gets down to lack of productive capacity, investments -- and this gets down to allowing tax incentives in a proper rate of return to the industries that need to have this capacity.

Mr. Secretary, I won't cite them all. I talk about the government regulations. There is public interventions, some of which are responsible and productive but much of it is, I think, very detrimental to projects going ahead on an orderly basis.

I would like to suggest a crash study by OMB to study, 1) the extent of interferences; 2) cost of interferences; 3) delays of interferences; 4) mechanism to elevate trade-offs; and 5) mechanism to adjudicate, which is where the public interest really lies.

I could talk quite a bit about the energy problems, that is another major subject, but I think as you know, many of us have a meeting starting on Monday and I suggest that you all turn in on that.

Thank you.

SECRETARY DENT: Thank you, Mr. Bechtel.

Samuel Johnson.

MR. JOHNSON: Johnson Wax.

Mr. Secretary, I just have a simple list of my priorities that will help control inflation and hopefully get the economy back on the track.

Number one, we have to reduce government expenditures -- that is the most important, single source of inflationary pressure.

Point two, we can't drift back into controls, they don't work and they destroy confidence.

Point three, I think we should continue the reasonably tight money policy. I think there are more risks and major changes than there are to continue them as is.

Point four, we have to allow our national and multi-national corporations to compete more effectively here and abroad by no new tax or other regulations on the part of our government because our strength in our economy is based on our ability, our unique ability of our companies to compete in the global markets.

Point five, my final point, I think we need incentives to redirect public and private resources to the most important social priorities in this country. Housing for people, for restoration of our cities and upgrading the possibilities of the poor.

Thank you very much.

SECRETARY DENT: Thank you.

We now call on Mr. Jones.

MR. JONES: Mr. Secretary, many of the government programs that have taken shape in the last decade have been termed by corporate America "social programs." This label hides the tremendous economic importance of these programs to blacks and other minorities -- and to the nation as a whole.

The National Association of Black Manufacturers fears that as the govenrment sector and corporate America becore more preoccupied with problems of inflation, shortages of materials and tight money, they will tend to use their own problems as a rationale to decrease efforts in areas that are designed to benefit minorities.

The National Association of Black Manufacturers recognizes that the probable method that will be used to slow the present inflationary aspects of the economy will be to decrease federal spending. We are concerned then about the resulting increase in unemployment for blacks and other minorities.

Compensating programs to deal with unemployment msut be pursued with vigor before a six percnet level of unemployment is reached nationally, and it is generally recognized that this six percnet level translates to twenty percent in black ghettos.

Efforts that reduce government spending, and thereby cause increased unemployment for minoriteis, must be carefully structured so as not to destroy the hard-won achievement of minority companies in businesses over the past decade. We believe that programs to alleviate and prevent any substantial retrenchment for black and other minority companies must get underway now.

Public service employment programs that are attempting to alleviate the high unemployment level must be urged to utilize minority owned and operated businesses whenever possible. This method may well prove to be lest costly than direct government employment policies because it would tned to encourage competition, thus limiting costs.

This method also has the advantages of building the minority business economy and, at the same time, discouraging the enlargement of an already huge governmental structure.

More of our specific concerns are:

1. High Interest Rates. The present high interest rates, caused in part by the government's efforts to lessen inflation, hurt the small business by increasing its costs while at the same time making credit less available.

Under the government's program to lessen inflation, the level of guarantees on loans to small businesses should be increased so that the growth of small businesses can be maintained in proportion to the growth rate of the economy.

Minority businesses are young and most often of marginal profitability; they are especially impacted detrimentally by these high interest rates. The government must therefore increase its efforts to make financing availabile to minority-owned companies.

2. Reduction of Minority Contracting Efforts. It should be expected that, as the unemployment rate rises and the number of minoriteis on the payroll of corporate America decreases, efforts to cut back on minority subcontracting efforts will follow.

It is especially importnat that the government maintain its diligence in enforcing equal opportunity for minorities in all aspects of business, particularly the subcontracting efforts as authorized under Title 41 of the Federal Procurement Regulations (FPR) and under the Armed Services Procurement Regulations (ASPR).

3. Government Contract Trap. Many of the companies in the National Association of Black Manufacturers have a problem in common with other small businesses when they are doing business with the federal government, and a disproportionately large number of them are.

In most cases, the contracts for supplies or services are of the fixed-price type. Due to the present escalation in material costs, these companies are being squeezed into unprofitability because they are not able to "pass on" unexpected increases or to "justify" a proper rate of escalation.

Because small businesses usually can not take the severe losses as are now likely under the present economic conditions, it seems time for the government to urn, as a matter of policy, to cost-plus type contracts for small businesses.

Some additional ways to protect the interests of minorities during the period of use of Public Service Programs are as follows:

1. Maintain existing business development programs in the Small Business Administration. The 8(a) Program efforts should be increased. Programs in the Department of Commerce designed to stimulate minority-owned businesses should be maintained. The programs create incentive in minorities to develop business expertise and a greater competitive spirit to do business in the American business mainstream.

2. Fund a commission to coordinate and police minority business programs.

3. Enact legislation giving minorities a clear legal right to business development programs.

SECRETARY DENT: Thank you, Mr. Jones.

We call on Mr. Lewis.

MR. LEWIS: David Lewis, General Dynamics.

Mr. Secretary, I appreciate the opportunity tomake the following recommendations for action. As you can see, most are aimed at improving industrial productivity and rebuilding the confidence of the American people.

Number one, the federal budget for fiscal 1975 should be balanced at the $300 billion level. This may be difficult in the remaining six to nine months. However, with strongaction now the fiscal 1976 budget can be balanced at the same level.

I believe the budget can be balanced by constructive reductions in government expenditures without tax increases. There should be a gradual easing of the Fed's current tight money policy; however, there should be some procedure set up to insure that the increased money supply is channeled into areas of capital facility expansion designed to improve industrial productivity.

Much stronger tax or other incentives for facility expansion should be established and very quickly.

The government should immediately relax their zealous implementation ofthe various consumer, environmental, OSHA and other regulations where heavy capital expenditures are required in non-productive areas.

The government should continue and accelerate its efforts to assist and encourage American business in its foreign sales activities.

The Congress and the Administration should exercise great care in the allocations within the budget to insure that worthwhile government finance programs carried out by highly productive free

enterprise industry are not replaced by low productivity make-work programs of the social welfare agencies.

Our responsible labor leaders should take aggressive action to convince their memberships to the simple fact that it is in their best interests to eliminate the terribly inefficient work practices which are becoming more prevalent every day.

Last, the government, labor and industry should work together with the full support of our highly effective media of this country to encourage the American people to make the necessary personal sacrifices and to rebuild their confidence that the American free enterprise system operating in a free economy is the best solution to our inflation problems.

Thank you.

SECRETARY DENT: Thank you, Mr. Lewis.

We call on Dr. Lazer.

DR. LAZER: William Lazer of Michigan State University.

Mr. Secretary, thank you for this invitation and the opportunity to comment hurriedly on a few economic issues and consumer concerns.

While shortrun actions can be taken to curb and limit inflation, it is the longrun economic and political commitments that are required to achieve solutions. There is no ideal bromide for handling our problems of inflation. The major question becomes how will various sectors of our society bear the inflation burden?

It should be generally accepted that the long-run monetary supply policies should be increased to parallel the long-run growth of goods, three percent to four percent per year. For over the past two years our money supply realized an estimated inflationary avarage annual growth rate of approximately 7.4 percent. Recent actions have resulted in lowering the current rate to about 5.5 percent. They should be continued to reduce the rate even further. However, volatile and rapid adjustments in monetary supply should be avoided because they bring severe economic dislocations.

Selective exceptions to this general policy should be considered, as for example in the housing market. Here the real impact of tight monetary policy on housing and rents will be revealed as housing completions continue to widen the gap with housing starts and unemployment and rents rise further.

Our rising unemployment, a traditional tradeoff for dampening inflation, is of immediate concern.

To ease demand pressures, a temporary tax increase seems warranted at this time. The tax burden, however, should fall on the middle and upper income levels.

Attention must again be redirected to the energy situation. The current availability of gasoline and the attention paid to other economic matters have meant that energy has been shifted to an unrealistically lower-order priority.

In essence, energy has been, and will continue to be a major upward inflationary factor. Our nation's stance regarding petroleum and coal, particularly should be given precedence and where possible adjusted for short-run economic impact.

It is now widely acknowledged that inflation will continue in the short-run, prices will rise and consumer incomes will be further eroded. Concurrently, consumers perceive businesses and farmers to be enjoying rising profits. The fact that certain profit increases may be warranted and beneficial in the long-run, coupled with great consumer misconceptions about the real size and amounts of profits, complicates the situation.

At the same time, consumers see new price increases being posted.

The past reaction of American consumers to periods of inflation has been to increase savings, to dampen expenditures and ultimately realize a beneficial effect. During periods of extremely high inflation, however, -- which is more characteristic of our current situation and expected short-run future -- consumers tend to move to goods from money. They are increasingly tempted to buy now, stimulate demand further, and unwittingly act in a manner to aggravate inflation.

Now, for a few consumer concerns. Inflation to the consumer means basically three things:

First, the erosion of income and acquired standard of living; second, the dampening of normal expectations of increasing their economic status; and third, some loss of consumer confidence in our economic system. Consumers rightly or wrongly perceive enjoying rising profits. At the same time consumers see new price increases being posted.

Statements by our leaders further reinforce the idea that if you think prices are high now, wait until you see next year's model.

Consumers now have a lack of confidence in our economy. They react out of fear. Consumers in periods of mild inflation have increased savings and that was healthy. However, if you study periods of great inflation, you will find that consumers then tend to move to goods from money and this tendency to buy now stimulates demand further and unwhittingly acts in a manner to aggrevate inflation.

I think that if the Federal Government can do more to increase supply of goods and services available, more attention must be directed to methods of stimulating productivity by providing incentives such as tax rebates.

An independent productivity agency should be established in the United States with Government backing. I think that the actions and impact of speculators on prices of goods and on prices and supply would be helpful in making inflation-curbing decisions.

A comprehensive review of current and wholesale prices of commodities should be conducted by methods of increasing these supplies maintained, and those commodities that experienced the greatest price increases could be actually increased and we could combine these methods of decreasing the use of these commodities and redesigning products. To foster competition the government should review and eliminate many of the existing import quotas where materials and products are in short supply, investment should be encouraged.

Government programs that limit competition have considerable impact on prices as do rules and regulations. Cost benefit analysis of these programs should be performed. With regard to income and savings we must remember if we expect inflation for the next few quarters -- consumers should be encouraged to increase their savings and regulations can be changed to do this such as taxation on interest realized from savings having that eased up and permitting other savings institutions to pay competitive rates.

Mr. Secretary, I thank you for this opportunity. We must generate committments which we have not to date. I think the Congress and you are to be commended for the actions you have taken with regard to these meetings.

SECRETARY DENT: Thank you, Dr. Lazer.

We will now adjourn for a coffee break.

Resume here at 10:50.

(Coffee break.)

SECRETARY DENT: Next we will hear from Mr. Meeker.

MR. MEEKER: Hobart Manufacturing.

I have not caught up with my invitation from the President. I was a little off base this past few weeks in northern Michigan. So, I did not have the opportunity to prepare a formal statement, but I do want to commend you and the Congress and the President for calling this meeting.

I think it is most important and most timely. I feel that one of the great benefits from it can be the fact that the press and our news media will recognize the importance of their accurate portrayal of business news and also the factual aspects of it.

I realize it is not as interesting sometimes as the more sensational things, but I think for the good of our economy and for the good of the country and business in general, they must realize that they are serving a very important position in getting to the general public the true story of business and its importance to jobs and to all of the various aspects of our national economy.

I cannot help but think of an old story of the ladies at the bridge party. One of the members did not attend that day. She was apparently away on some extracurricular activities. The girls decided to go into a little commentary about her. They laid her out, ripped her up one side and down the other and said, "Mary does have a good side," and they said, "It is not nearly as interesting."

That can be somewhat true of some of the things we read in the press, but I am sure our press representatives here recognize it is very important to our whole country that a careful weighing of the portraying of business news is made and I think by having them attend this meeting it will be very helpful in that regard.

I expect to attend a meeting tomorrow and all next week with foreign representatives who arrived safely last night from all over Europe, andwe are having a series of meetings and discussing the question of multinational corporations' operations as to how variousthings affect our operations.

We have been inthe sales and distribution and foreign countries over 60 years and in manufacturing over 50. We primarily went into it in order to assure that our operations in America would not be intruded upon by competition inthe foreign lands that would be developed from copying or duplicating our products over there.

So, I think it has proven in our case that by having strong companies in the majorcountries that we have been able to take care of the demands there and at thesametime have a very decided effect on the balance of payments from the standpoint of our smaller companies and many of the larger companies have had a tremendous effect on our balance of payments.

The thing that I am most concerned about is some of the new thoughts in the IRS are not going to disturb things to the point where nobody knows what is going to happen for a period of time and now we should be working on certain certainties and certain rulesthat we know will at least be in existence for a reasonable period of time so we know how to calculate our plans.

SECRETARY DENT: Thank you, Mr. Meeker.

We now call on Mr. Morgens.

MR. MORGENS: I want to use my few minutes to state what I believe to be the fundamental cause ofour inflation and the fundamental way to correct it. Others have mentioned these points but I would like to reemphasize thembecause unless everyone, including the public, understands the basic cause and cure of inflation, there can be little real progress in solving the problem.

The fundamental cause of our inflation is that the supply of money in this country has been increased at a much faster rate than the supply of goods and services which that money will buy. In the past 10 years — from 1963 to 1973 — our total money supply has been increased about 120% whereas the goods and services that this nation produces have increased only about 50%. This represents inflation almost by definition.

The money supply had to be increased to an excessive degree in order to provide for the Government's deficit spending and for its many credit-guarantee programs. This was the only way that this spending and these credit programs could be accommodated. Clearly, our government has been trying to accomplish too much too fast. When this happens, instead of the Government programs helping people, they end up hurting people through inflation.

If one accepts this as the underlying cause of our inflation, then it follows that the way to correct our problem is to remove its underlying cause. Our inflation will not go away until the supply of money can be made to move forward over a period of time at approximately the same rate as our capacity to produce goods and services. And that can't be achieved without balanced budgets and sound fiscal policies.

Some will say that this is an oversimplification. To some degree it is. But if we are to understand our problem, it is better to oversimplify it than to make it overly complicated.

Certainly other factors have added to our rising prices — such as disappointing harvests, the increase in the price of imported oil, the devaluation of the dollar, etc. — but they are not the <u>basic</u> cause of our inflation. Also, whether we have cost-push or demand-pull inflation — and we have had both — does not affect its underlying cause.

Sometimes we try to explain our rising prices here in the United States by saying that it is part of a worldwide inflation. However, in the past 10 years, every major industrial country has increased its money supply at a much faster rate than it was able to increase its goods and services. In all these countries, the governments have resorted to deficit financing almost as a way of life just as we have here in the United States. The result is a worldwide inflation.

This raises a difficult question. Are the political and social pressures so great in every present-day democracy that no government can resist spending more money than it takes in? If democratic governments can't resist doing this, then we are indeed doomed to continued inflation.

I have to believe that, at least in this country, our government is capable of the self-discipline needed to bring about balanced budgets. These would in turn permit the long-term growth in our money supply to move at approximately the same rate as the growth in our capacity to produce. However, I believe these things can be done only if the people of this country understand the main reason for our inflation. To develop this public understanding and to create this resolve is, I believe, one of the purposes of these Summit Conferences.

If our government can control its spending, it will set an example for other countries to follow. If it can't, our inflation will feed on itself and I don't think it is too much to say that it can eventually destroy our free society.

Although I believe the fundamental cause of our inflation and the fundamental way to correct it can be identified and expressed very simply, I am well aware that the actual process of correcting it is not so simple either from an economic or political standpoint.

Many have expressed the view that if we try to correct the inflation too quickly, we can bring about a real depression. I agree, but this need not and must not happen. However, if we move too gradually to curb inflation, we may not succeed at all. Americans are an impatient people. If the inflation isn't corrected with reasonable speed, I fear there will again be demands for wage and price controls, which will only compound our problems and make them much worse than they are now.

The process of curing inflation will not be pleasant. It can be more difficult for some parts of our society than for others so we must endeavor to spread any hardship as evenly as possible. If too much unemployment develops, the unemployed must certainly be helped. If the low-income groups suffer more than others, they should have some special tax relief. The housing industry, for another example, is suffering right now more than most other industries and it may also require some special help. The danger is that our government will become so bogged down in the question of how to spread the sacrifice equally that nothing adequate will happen. However unpleasant the cure may be, it will not be as painful -- or as inequitable -- as continued inflation. And the cure is not likely to be any more agreeable if it is dragged out for too long a time.

I do not want to disassociate myself from many of the measures proposed at previous conferences to help increase our production capacity. Since we believe the rate of increase in the money supply must be kept approximately in line with

the increase in our supply of goods and services, obviously any measures that will encourage investment in production capacity will help to reduce inflation. However, if the fundamental cause of our inflation is removed, I feel confident that our free market economy will provide the main stimulus to building the productivity of the nation.

Since this brief statement is devoted primarily to the basic cause and cure of inflation as opposed to quick temporary measures, I'll again state my conviction that the fundamental requirement for controlling inflation is to bring about balanced Federal budgets as quickly as possible. In this connection, it should be noted that a cut in the Federal budget does not mean a cut in spending. Even if $5 billion is cut from this fiscal year's budget, as has been suggested, there would still be an actual increase in Federal spending this year, compared to last year, of $32 billion! And in all probability, there would still be some deficit this year. However, next fiscal year's budget — which I assume is under preparation right now — should clearly be in full balance. In fact, I believe the Government should aim at a surplus in its 1975/76 budget so as to assure a full balance.

I further believe it will be necessary to maintain a restrictive monetary policy while efforts are being made to bring the Federal budgets into balance. This does not mean that the very recent policy of near zero growth in the money supply should be maintained. It should be eased but not to the point where it ceases to be restrictive. Once there is evidence that a sound fiscal policy is being implemented, our money supply can safely move forward at approximately the same rate as our productive capacity.

If we really want to lick inflation in this country — and I am confident that we can — these measures should not be too much to ask of our government.

SECRETARY DENT: Thank you, Mr. Morgens.

We now call on Mr. Roosevelt.

MR. ROOSEVELT: Mr. Secretary, my former colleagues and Members of the Congress, I would like to zero in, if I may, on the small business segment ofthe economy.

I had a particular interest during the years that I was in Congress serving on the House Small Business Committee as well as the Committee on Education and Labor and that is my business today.

I believe that many of you around the table who are the executives of large companies would testify that you rely to a great extent on small business in making your own enterprises successful. Thefact is that about 5.2 million businesses in the United States are small businesses, and thatthey actually contribute somewhere between 37 to 39 percent of the Gross National Product and 43 percent of the gross business production.

I think it has alreadybeen said that 39 million Americans produce somewhere around $400 billion worth of goods and services. Yet, today, we don't pay very much attention to this segment whichunder our present conditions suffers the most.

They can't go to the bank and get any long-term credit. They cannot go public in their financing forthe same reasons that affect so much of the economy today. Y et, we have available, if we would use it, the machinery to produce productivity in this area.

As I have listened today, the emphasis has been on productivity. The Small Business Administration was, of course, created to help small businesses primarily. I happen to believe it has gotten off the track in disaster loan areas which has taken so much of its time.

I would like to see developed today, if you want, a marriage between the Small Business Administration and the private sector which must in essence provide the capital to let this small business contribute really to productivity.

There is such a thing in the existing law as guaranteed loans but they have never really been used to go out and raise then necessary capital because of the fact that the control of the loan and credit policy was not given to the private sector. It was left in the government sector which I happen to believe is wrong.

I also believe that it would be possible today to create -- in fact, I know it is possible -- to create in the private financial sector a system whereby these monies which are needed could be highly turned over and provide a tremendous increase in employment as well as straight productivity.

Now it is not an entirely new concept, of course. The FHA and FNMA and the construction industry was for and has been used in very much the same way at least in basic principle.

So I would urge, Mr. Secretary, that there be appointed at the earliest possible time a panel of, let us say, three to five people representing the financial private community which is going to provide the capital to revise and to go over and to see what changes are needed in the present small business administrative structure because you are going to have some opposition if you try to take away from government the right to control the credit and loan policies that should be set up.

I think we could reduce the budget incidentally by setting out some of the more or less incompetent people in the government in this area today. But, on top of that, I also believe very strongly that if we attack these problems quickly, they can be a contributing source to a fairly quick contribution toward this increased productivity.

I have, Mr. Secretary, placed in the record the detailed agenda which I would hope this panel would attend.

First, I think we need to have on that panel the private financial sector. We should certainly have the administrator of Small Business Administration. I would hope the members of Congress who perhaps have to legislate would also be included in the panel or at least attend the sessions of the panel.

If then the small business sector itself can be represented by one or two members, I think this panel can come up within 90 days with a program which, with the help of the President and the Executive Branch, could make a true contribution to the aims of this conference.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Roosevelt.

We now call on Mr. Miller

MR. MILLER: Cummins Engine Company, Inc.

Mr. Secretary, inflation is only one component of economic stability. The others are unemployment and economic growth. Any one of these can be solved, at the expense of the other two but there will be no economic stability long-term unless government action on each at all times takes account of the adverse effects on the others.

Within inflation today we have an especially acute and dangerous problem-liquidity. Corporate debt is at record high. There is virtually no equity market. Business borrows short to invest long and so do banks.

In today's fragile investment climate the sudden inability of one or more businesses or banks to meet short-term obligations on time could precipitate forces that would be hard to reverse. Unless the President had in being and under way a convincing program on the economic front.

My first recommendation therefore is for very prompt action. I do not think the President has a great deal of time in which to act.

What might the program contain?

Short-term actions, monetary policy. I agree with what has been said here. The nation should be informed that monetary policy will continue restrictive and not ease until there is significant and lasting decline in the rate of inflation.

Public expenditures -- I also agree with the consensus. There is urgent need for maximum practical economy in government expenditures but this must include Federal, State and local and the latter two are growing more rapidly.

There is need for speedy reorganization, elimination of overlapping, competing functions and the consolidation of authorities.

However, with very high inflation rates which affect government expenditures with the need to fund public service employment and retraining, with the need to arrest further deterioration in selected vital public services, I doubt if it will be possible to balance the budget without raising taxes.

I would support progressively increased Federal income taxes for those with personal incomes of $15,000 and above and an increase in the corporate tax to levels no greater than those of 1963. Within all this and to increase manufacturing capacity and to foster needed productivity improvements, I would recommend a more liberal investment tax credit applied selectively where clear and needed additions to productivity and capacity can be demonstrated.

The diversion of this which Ralph Lazarus mentioned, I found quite attractive this morning.

With respect to controls, I do not like controls and under normal variations of the free market system, they are counter productive but with the extreme swings of the economy, I think the President needs power to arrest dangerous trends to formulate appropriate solutions. There always has to be one stinker in the group so I recommend that Congress enact discretionary authority to the President to impose controls in the most dangerous and sudden swings of the economy.

In respect to regulation, obsolete and restrictive regulations are now imposing huge and useless costs upon this country. A presidential commission freely empowered to identify the most promising areas for improvement should be coupled with an executive committee to act promptly for this deregulation is long overdue.

Food prices: There is good reason to fear the Northern Hemisphere may be entering a decade of drought which has in history occurred regularly every 40 to 50 years. A competent commission should be convened to consider a prolonged period of poor harvest and consider increase of food production, stable prices and to equalize distribution.

Now, a look at long-term objectives. Economic policy in this and most countries is still little more than a response to current conditions. A first step toward economic stability would be the establishment of the comprehensive, reliable long-range national planning capacity. No good business can operate any other way and neither can government. The essential part of that capacity is the creation of a trustworthy data base that is inclusive, reliable, continuously current and thoroughly isolated from all external partisan pressures.

We do not now have a data base that is even remotely adequate to our needs.

A second requirement would be that the objectives of such an agency should be defined in specific and measurable terms and not vague terms so that they can be sueful to government, to business and to labor alike.

Finally, such a planning system properly contrived and conducted will aid the functioning of the market system because it will give it knowledge; it will not inhibit. To be really effective it must also become international. Economic interdependence is a fact today. No country has all it needs and wants.

The President ought to, as soon as possible, initiate a meeting of leaders of all industrial nations and selected developing nations to identify and establish policies combatting inflation and for the achievement of economic stability, and every short-term policy that anyone embarks upon should be continuously tested against and reconciled with our long-term objectives.

Thank you.

SECRETARY DENT: Thank you, Mr. Miller.

We now call on Mr. Jaicks.

MR. JAICKS: There appears to be a growing consensus within the business community that programs to control inflation must involve restraints on both fiscal and monetary policies. From the perspective of a manufacturer, I feel a greater affinity for fiscal policy because I have a day-in and day-out awareness that government programs are placing demands on our economic system that are far beyond our available, finite resources. I will leave monetary matters to those in the financial community, although I do feel strongly that much that is wrong with monetary policy stems from the practice of funding rapidly escalating government programs without raising taxes or borrowing from the public.

The scope of government policy seems to be growing endlessly and virtually without question. Each new goal, taken in isolation, appears to the public to be worthwhile, whether it is related to the environment, housing, working conditions, safety, leisure, education, health, earning opportunity, or what have you. Programs are passed in a piece-meal manner, too often without regard for their hidden costs, trade-offs, and incidental social damage in other areas, and certainly without an appraisal of the magnitude of the political diversion of resources from productive market applications.

At its worst, this process results in a sheer waste of resources. I am afraid that we too often have seen the passage of social improvement projects that are structurally wasteful in their basic concept, a waste that is compounded by restricted time schedules enforced by a desire for immediate political impact. Allowing for good programs as well as bad ones does not change the net effect on the economy. We are reducing the supply of goods and services available in the open market.

On the evidence, the restrictions and diversions in recent years have been at the expense of basic industries, the steel industry among them. I could cite examples from steel industry experience involving every type of restriction on supply, from premature abandonment of our own and our materials supplier's facilities, to the virtual break-down of our transport system, to inefficient conversions for environmental control, to the intervention in our sourcing of vital alloying elements, to under-investment in new plant and equipment. In every instance, an increase in the real cost of steel has accompanied the restriction in supply.

Effective policy formulation must recognize that no matter how they are absorbed initially, these higher real costs for goods and services are ultimately borne by the community at large. Our recent experience with shortages and rapid price changes is evidence that we have been going through just this kind of catch-up period.

Tight fiscal policies hold the promise of shifting resources back to the private economy. It would be helpful if such policies were accompanied by programs designed to conserve capital and promote capital formation and investment.

Capital conservation can be promoted by realistic pollution control and occupational health and safety standards and compliance timetables that allow for retention of vitally-needed existing facilities. Capital formation can be promoted through tax laws which favor capital recovery and the generation of new capital. Structured properly, such changes in tax laws related to capital recovery should not be construed as subsidies because, having provided the impetus to new investment in productive facilities, they would then result in increased taxes at a later date. And investment could be aided by programs designed to promote economic stability. For example, we in the steel industry feel that domestic investment would be greatly promoted by the inclusion within pending trade legislation of more effective safeguards against dumping and other forms of unfair competition from foreign producers.

For maximum effectiveness, these basic anti-inflation programs must be pursued while avoiding controls over the market mechanism, including controls over wages, prices and credit. Whatever the appearance of short-term benefits, they lead all too quickly to distortions that add to real costs and inflation.

Thank you very much, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Jaicks.

We now call upon Mr. Gerstenberg.

MR. GERSTENBERG: General Motors.

As I see it, at least four inflationary developments have influenced our current economy.

First, many of the recent price increases represent essential corrections following three years of controls, a sort of adjustment bulge, if you please, which should not have been unexpected.

Second, the cumulative federal deficit of the last four years has reached $64 billion with an inevitable and considerable effect on the money supply and the rate of inflation. We must hold down spending to minimize these deficits and ultimate to remove them.

If we are to hold down spending and restrain the expansion of the money supply we should slacken the rate of inflation over the next 12 months although it may not reach an acceptable level.

Third, material shortages, notably petroleum and food have contributed heavily to inflationary trends. While it is not a shortage, I would remind you that a national strike by the coal miners could be less than 60 days away and it could have a devistating effect upon the nation's entire productive system. We do hope that all parties concerned will give this emerging crisis the full and immediate attention we think it deserves.

Fourth, productivity has dropped but wages have continued to rise. As a result, unit labor costs rose about 13 person in the first half of this year.

Now, I strongly endorse the current policy of relying heavily on the proven forces of a competitive market. I am opposed to all forms of direct wage and price controls, nor do I see any value in even considering the reimposition of direct credit controls.

As far as monetary policy, we must continue to exercise restraint but there are different degrees of restraint.

For the next six months, we would hope that the money supply could be gradually increased a bit to a rate above that of the last several months but well below the current rate of inflation.

It would be our idea to approve a rate, say, between five and six percent.

It is most important that we achieve greater productivity from our investment and from our labor. To this extent, the need to adjust tax regulations, to liberalize capital recovery allowances and to improve investment incentives is most urgent.

Finally, our nation also has an urgent need to reexamine the relationship between environmental improvement and economic growth.

The fight against inflation should include a reexamination of the cost-benefit relationships, of such relationships with respect to investment in plant and facility and the product cost that is incurred.

We do question whether our society can afford such immense but only partly productive costs especially at times such as these.

Again, we would ask our government whether today's inflation does not make all the more necessary a complete moratorium -- say a freeze for three years -- on new federal law and regulation that disproportionately affect the cost of all products in the marketplace.

This productive pause would permit everyone concerned -- the government, the public and the industry -- to review the accomplishments of recent regulations and to measure their costs, in an attempt to reach a common-sense balance.

Right now, today, in our industry we are incurring an annual cost in excess of $3 billion for the equipment that has been added to our passenger cars in the four model

years, 1972 through 1975.

Now, we are suggesting a two-fold approach: First a three-year moratorium on unnecessary new regulation and, second, an immediate joint government-industry review of the cost-benefit relationship of equipment already on our cars with an eye to determine whether any of it can be removed.

As examples, we would list such current requirements as the safety belt, interbelt lock system, which four out of five people have devised a way of defeating along with the unnecessary bumper which add unnecessary weight and unnecessary cost to the consumer.

Massive development and equipment costs are the mandated air cushion restraint system which based on limited data available would provide no greater protection than today's belts if and when they are used and a further reduction in emmission standards proposed for 1977 and '78 which no manufacturer to the best of our knowledge, knows how to accomplish in mass production.

No one wants to go backward and undo the progress that has been made, but it is most appropriate, I believe, to reconsider our specific environmental goals for the future and the related timing objectives.

One comment before I close. We have had many, many constructive ideas here today but the national attitude, I believe, and approach to confidence, is most essential.

Let us not lose sight of the fact that with all of out difficulties, our economy today is still the most powerful, the most productive and certainly the best in all the world. Over the last five years it has created 6.5 million new jobs for our people and even now despite the current fall-off, it endures as a tremendous vehicle for human progress.

Thank you, sir.

SECRETARY DENT: Thank you, Mr. Gerstenberg.

We now call on Mr. Haas.

MR. HAAS: Thank you. I am going to accept your challenge, Secretary Dent, in the hope of stimulating discussion, perhaps, add a new dimension or two if I can.

What is needed is strong leadership from the Executive Branch, bipartisan support from Congress and grassroots support and participation by all Americans in every segment of our society.

The people should be made to realize that we are in a long-term struggle and the goals for the next two or three years should be realisticly set and progress honestly reported. In essence, I feel that the conventional wisdom is not working under present circumstances. New approaches should be attempted in addition to many of the traditional remedies that have already been suggested.

I will try to summarize my thoughts according to the agenda outlined that was sent to us in advance of this meeting.

With respect to fiscal expenditures, I think they should be reduced and we should attempt to reach a balanced budget in 1975 and the fiscal year ending 1976. Real austerity at the top is essential to obtain the nation's support and cooperation.

Individuals and families all over the country are being forced to tighten their belts -- so should the government. The United States must maintain a strong posture militarily, economically, and socially, yet by using its resources more effectively, it would set a significant example to its citizens.

With respect to fiscal receipts, I believe that total receipts should be maintained at present levels or higher but with the important modifications to encourage savings and to increase productivity.

Included as part of a balanced package might be some of the following: Adjust tax rates downward for lower income individuals with a concurrent increase in personal taxes for those above a certain level; eliminate loopholes in present tax laws to make them more equitable; emphasize additional tax credits for measureable increased productivity. I suggest a tax on excess profits unless such excess is diverted to capital expenditures or research and development that will increase productivity. For five taxes on incomes from personal savings accounts.

Forgive taxes on dividends to a greater degreethan the present $100 for individual to encourage investment in equities.

Even more innovative, I urge consideration of some ofthe following:

Introduction of a variable investment tax credit which would be paid only on investment which increased productivity and performance, showing a greater-than-average increase in productivity;

A decline in corporate income tax rates for all firms that have stable or lowerprices;

An adjustment of the personal incometax rate so that an individual whohad an increase in income which was the same percentage as the CPI increase wouldremain at the same place onthe tax table;

A penalty tax on all firms who granted their workers increases which av eraged more than the CPI growth.

I will skip my notes on some of the other matters because they are in the record and have been covered by many here, but just a quick comment on governmental regulations.

I do believe an objective analysis needs to be made tosee if current national and state regulations relate to current problems. A continued review of our regulatory agencies is needed.

Now, a suggestion: Any attempt to control inflation must, as we all agree, involve all Americans. If giventhe opportunity and clearly defined guidelines, I believe they will respond.

In addition to increasing productivity, much can be accomplished by conserving resources and toward this end I suggest an effort be modeled to some degree after the National Alliance of Businessmen, a partnership between labor, government and business with which every corporate head is familiar, andwe have the first two national chairmen also present.

I suggest a national board consisting of representatives from labor, business, government, agriculture and consumers to establish policies and goals, to monitor performance and to be available on a continuing basis for advice and consultation as conditions change.

The effort might be labeled something like a national citizens' crusade.

To carry this program to the grass roots level, this national committee would coordinate with local committees throughout the country, perhaps modeled on the town hall meeting concept. They would be asked to suggest new ideas for controlling inflation and to present innovative measures for controlling our resources.

They would consider such things as reinstating the moral commitment, to limiting automobile speeds to 55 miles per hour, turning off unused electric lights, turning down thermostats, recycling materials and actively conducting educational campaigns to inform consumers of the magnitude of the problem and the steps which will benefit each of them, such as information on which foods are the best values, how-to information on the repairs of common items and the potential savings per household of these other and similar practices.

In conclusion and above all, we need strong and effective leadership from Washington. The Administration and the Congress must be statesman-like and resist pressure groups interested in short-term relief at the cost of long-term national solutions.

SECRETARY DENT: Thank you, Mr. Haas.

We now call on Mr. Wingerter.

MR. WINGERTER: Libby-Owens-Ford Company.

Regardless of the relative roles that demand/pull or cost-push factors are playing in the causes of current inflation, I think we should recognize that we are witnessesing the result of a serious overloading of our economic system.

The wealth-producing segment of the economy is simply not strongenough to support all ofthe here and now standard ofliving and social expectancy demands our society wants to impose upon it.

Shorter work hours, restricted work practices, longer vacations, early retirements, increased pensions, medical aid programs, lengthened school years andthe like, whether financed by the private sector orthrough government taxes, carry an economic price affecting both ours tandard ofliving and cost of living.

We have so heavily mortgaged hope for future productive improvement that continually increased cost and prices of manufactured goods are builtinto the economic outlook.

Further than that, we have witnessed for many years a declining percentage of our nation's total employed population that isengaged in the production ofthings holding tangible values.

While the percentage engaged inthe production of services hasg rown importantly, thosewho work in the services andprofessions plusthe one-in-six employed by national, state and local governments can contribute to ourtotal economic strength, productivity and wealth producing activity only tothe extent that their output can increase the productivity of those producing tangible values.

Of course, it can be argued that the major contribution of those employed inthe major professions services and in government contribute to our improved quality of life and that holds importance. I merely make the point that there is an expensive economic cost attached to those services that appears to be coming out of line whenthevalue isreceived.

We have been adding to this load on our productive base at an alarming rate, detracting from our potential outputof goods and increasing their costs.

There is no other place to reflect those increasing costs except in prices or in inadequate profits.

Now, some labor spokesmen and social philosophers will say prices don't have to go up to reflect increases in labor, materials, money and taxes. You simply squeeze the profit margins further or even eliminate profits. What is not generally understood is that by reason of our tax laws manufacturing corporations for a long time have been reporting profits that are highly illusory and paying income taxes on such figures as though they were real.

The degree or percentage of illusion in those reported profits predominantly reflects the rate of inflation during the period of repotring, the relative capital intensiveness of that business and the book value of inventories.

There is a serious cash flow and capital formation problem existing with practically every industrial company in this land. That cash shortage reflects inadequate depreciation allowances to replace worn out or obsolete productive capacity that now costs something like two to four times what it did originally.

We have been keeping score on the basis of past lower costs for capital equipment that is totally unrealistic in terms of current replacement costs. Accelerated depreciation and capital investment tax credits of the kind that have passed across the tax debates scene in recent years and considered loopholes by some observers simply inadequate to solve this problem of merely maintaining a non-growth operation.

That says nothing about the cash problems inherent in operating an expanding business required increased cash and carrying large accounts receivable, inventories, and the like or the higher costs required to increase manufacturing capacity.

It is a characteristic of any good business, whether highly or marginally successful to need a continuing infusion of new capital. That capital can come from only three sources: the sale of additional equity shares, the borrowing of money or the reinvestment of the business of after-dividend earnings.

The raising of capital via the equity route in the present investment atmosphere is abhorrent. The costs of borrowing money have seemingly gone through the roof and the money available for reinvestment in the business is, in most cases, inadequate.

The last person on this scene is the common shareholder. He stands lowest on our society's list of obligations despite the fact that his investment created the business and the jobs the business sustains. If there is anyone who has a legitimate gripe about his shabby treatment, it is the equity shareholder and his withdrawel from the stockmarket proves he has got the message.

As a society, we face a realistic rearrangement in the priorities of our obligations. We have to stop eating our seed crop if we are serious about bringing inflation under control

Thank you.

SECRETARY DENT: Thank you very much.

I now call on Dr. Thorelli.

MR. THORELLI: Thank you, Mr. Secretary. Indiana University, unlimited.

I am here to articulate a consumer viewpoint. It seems to me reasonable that consumers are represented here. A good case can be made that the consumer is the person who bears the brunt of the inflation--most everyone else can pass it on. If you permit me to mix two metaphors: the consumer is where the buck stops--even though it is getting smaller all the time! In a basic sense consumers are not only the Silent Majority but also the Salient Majority. Before I get any further I am anxious to emphasize that there are many consumer viewpoints, as indeed there are many producer viewpoints.

Perennial inflation worse than short-term unemployment.

A cardinal premise here is that perennial inflation is even worse than short-term unemployment from a consumer point of view. As we learn to master inflation, the current bulge of unemployment will also disappear. Reversing the priorities would merely fan the flames of inflation. On the other hand, the uncertainties and the shortages that go with runaway inflation in the long term would tend to generate chronic unemployment. Thus, inflation is Public Enemy Number One.

Reasons for inflation.

The reasons for inflation are sociological as much as they are economic. The production of goods and services, and the pride in workman-

ship, have seemingly lost their glory to great numbers of people; whether their collars are white or blue. Yet our desires for more and better goods and services are constantly increasing. Supply and demand are hopelessly out of whack.

Economic theory tells us that sooner or later we will reach an equilibrium. But in the age of stagflation that is not likely until we do something drastic about three major problem areas.

Our flagging productivity.

The first problem is our flagging productivity. We need a tremendous National Productivity Campaign, a campaign stressing themes as these:

Make use of your day: conserving working time is just as important as conserving the environment or conserving oil.

Use women employees better (not just more). Pass the Equal Rights Amendment, build day care centers, etc.

Industry-wide productivity drives with E for Excellence or similar awards.

Closer examination of cost-benefit implications of environmental protection measures and product health and safety regulations.

Perhaps most importantly: tie wage-price guidelines (or controls) to productivity. Lower import tariffs in industries which exceed the guidelines--the impact of increased imports will be felt equally by companies and employees. Never condone automatic pass-throughs of cost increases, whether due to inflation or reduction in volume.

Flagging competition.

Our second problem is the flagging competition in both the economic and political marketplace, due to increasing concentration, rigidity and "stickyness." We should boost economic competition by liberal international trade talks, by going metric, by vigorous antitrust policy, by better product information to consumers, by throwing out obsolete building codes to allow prefabs and new materials to come in, by getting rid of cartel-

type barriers to professions, trades and to union membership.

Promoting competition among the political pressure groups close to the public till is a lot more difficult. What we should do is to re-examine current payments to pressure groups and to disallow new such payments for the duration of two-digit inflation. President Ford should veto the outrageous bill to discriminate in favor of American vessels in the import of oil. We should stop sugar-coating; eliminate the quotas and subsidies which keep U.S. sugar prices 2-3 times higher than the world price. We should never again pay a subsidy to a farmer for withholding production of any kind of grain or feed.

Flagging responsibility in international economic relations.

The third problem area is the international one. More than a new Bretton Woods we desperately need a North Atlantic Economic Community (perferably including Japan.) The Community would not only have a planned schedule for the elimination of internal trade barriers. It would coordinate fiscal and monetary policy, trade policy relative to the third world, energy research and, not least, policy relative to the OPEC oil cartel. Indeed, it is precisely the havoc wrought by that cartel as regards inflation and trade balances in the Western world that provides the United States with yet another challenge and opportunity similar to the Marshall Plan--only a lot more difficult, and a lot more important.

SECRETARY DENT: Thank you very much, Dr. Thorelli.

We call on Mr. Wood.

MR. WOOD: Arthur Wood, Sears Roebuck and Company. I will not attempt to analyze the many factors that have brought about our present national condition. These have been amply covered in recent weeks and by previous spokesmen today.

I believe it is imporant to recognize that inflation not only hurts our workers, our farmers, retired and dependent citizens and the poor, it hurts our schools, our hospitals, our churches, our museums, our private welfare agencies and it definitely hurts business and those who own shares in business. Hence it is everyone's job to help get it under control.

Others here have dealt with the necessity of reducing government spending so as to balance the federal budget. I hope the general public will support President Ford in his effort to bring this about and I hope in the process he will direct a review of organizations structure and personnel policies in government with particular attention to overlapping and duplication.

Others here have dealt with the importance of assuring adequate cash flow to provide for business growth and the tax incentives needed to stimulate savings and investment. I wholeheartedly concur with these recommendations.

I do wish to reiterate the point that the Federal Reserve Board is presently too restirctive in administering

monetary supply. In its determination to cool off business activity, I believe it has gone too far. I urge that the Federal Reserve Board take steps over the very short run to permit more moderate growth in the money supply than has been recorded in recent months.

In the longer run, I certainly agree that the Fed should folow a consistent policy and hold money supply growth within the 4 to 5 percent range.

I endorse President Ford's opposition to wage and price controls. We should have learned the costly lesson that controls simply do not work, they cause shortages of materials needed by manufacturers and many lower-priced products were forced off the market.

In my opinion, arbitrary wage controls brought on a deterioration of productivity and finally they resulted in pent-up surges and wages and prices upon de-control.

Some mention has been made that direct controls on the use of consumer credits should be imposed. In my judgment this would be a serious mistake. Requirements for minimum downpayments and increased monthly payments would affect adversely sales of automobiles, furniture, appliances, television, garden tractors, power saws, a host of big ticket items.

It is important to recognize that the consumer has been acting very responsibly in total spending over the past 18 months. In fact, there has been little real growth in consumer purchases of goods. It is also important to maintain and if possible increase employment in the many companies which manufacture these big ticket items.

Finally, I would like to point out that prices of merchandise bought in retail stores have on average been kept well below double digit inflation. The U.S. consumer benefits from vigorous competition in the retail industry. This competition will be an important factor in restraining price increases over the coming months.

The United States economy certainly is the strongest in the world. Employment is still at record high levels. I believe and I hope that their will come from these meetings a strengthening of confidnece among consumers and the general

public in the will of the government, business and labor to bring inflation under control. Productivity is the key to future growth and price stability. Every effort must be made to improve productivity, and in this connection I urge that the government review the laws and regulations which stand in the way of this improvement.

Thank you.

SECRETARY DENT: Thank you, Mr. Wood. We call on Mr. Watts.

MR. WATTS: Glenn Watts with the Communications Workers of America.

The economic predicament that is presently facing the United States economy clearly calls for a dramatic reshaping of the nation's economic policies. Long-range goals must be established and policies developed to attain them but we are faced with the here and now, and since it seems that we have been doing something wrong and there is some agreement on that we need corrective action now.

Reducing the federal budget by $5 billion or so will not do the job at least if I understand economists to be saying that a $5 billion reduction in the budget will reduce the gross national product by only 1/10 of 1 percent, and reducing the overall budget will not do the job on grounds of equity.

The budget should be reordered. Defense spending and highway spending and the like should be reduced while needed social programs, especially those that will now help with employment and income, should be strengthened and improved upon.

A balanced budget sounds great and I suspect that it would be balanced now if we had full employment. But if a balanced budget means more unemployment, no, we cannot afford it. Unemployment compensation programs should be improved, public service employment or employment of last resort must be provided on a scale to prevent recession and the standard of living of workers must not only be maintained but must over

the long pull be improved.

Taxes should be restructured to give relief to those making less than $20,000 a year and to increase the taxes of thse with incomes over $20,000. Tax reform that we have been talking about for a long time should be enacted to close loopholes, establish a minimum tax, eliminate oil tax preferences and put excess profit taxes into the picture in an intelligent way.

The trickle-down theory of tax incentives will not create the demand necessary to bring about investment, it is purchasing power in the hands of consumers that encourages investment. So-called tight money should be eased off. Money must be made available for housing at interest rates that are reasonable.

Credit allocation is needed to get money where it is needed to help now. Interest rates must be brought down.

Our experience since 1971 is certainly no recommendation for wage-price ntrols. Workers will not again tolerate wage restraint while prices, profits and interest rates soar. Administering prices, commodity shortages and interest rates are the villains of today and we should deal with these problems.

We must find and use the way to predict and head off shortages and we must provide in government the means for this.

An expanded role for the Council of Economic Advisors could be one of the mechanisms to be considered but I say let's do something in this regard. The whole area of administered prices will respond to vigorous anti-trust efforts and we must move to this end. Price controls should be used until inflation is under control.

Our whole experience in contorlling prices in the utility field should be taken into consideration in this regard. I say control prices while permitting reasonable profits and wages will not be a problem.

Thank you very much, sir.

SECRETARY DENT: Thank you, Mr. Watts.

We call on Mr. Berkeley Burrell.

MR. BURRELL: Berkeley Burrell, president of the National Business League, founded in 1900 by Booker T. Washington 12 years before the U.S. Chamber of Commerce. I just had to get that in.

An amendment of the National Commission on Productivity that apparently needs to begin now to sit in continuous session provided the Congress will give us sufficient funds to seek solutions.

I now call for the 25 time as Steve Bechtel will attest to at some of our meetings but at last no longer lone for a national conference on this nation's productivity crisis.

Mindful of the overall national economy, but especially concerned about the plight of the small and minority business community and of the consumer, it is imperative to the national and international economy that excessive inflation be controlled, regardless of the political consequences.

The fact thatincreased productivity is the ultimare solution to inflation cannot be denied. The question is: By what means and at what cost do we increase productivity and thereby cushion inflation.

I suggest that national policies must not place particular emphasis on the most depressed segments of our economy. More precisely, we must stimulate or revitalize those sectors of the economy that can contribute measurably to national productivity growth.

One of the major keys to increased productivity is black economic development. To be sure, our gross national product is deprived of billions of dollars and usually as an acknowledge consequence of the underdevelopment of black and other minority communities.

The upsurge in economic activity over the past several years was unsustainable in part bedause we were confronted with serious long-standing under-utilization of significant labor and other resources in minority communities.

The end result of tight money is usually bankruptcy for those firms which are trying to grow without adequate credit lines. Banks are now rationalizing big business deliquencies and foreclosing on small firms and I would hasten to name some if I were asked.

We urge the Administration to conduct an immediate and careful examination of the Credit Control Act of 1969 to determine whether the failure through the enormous powers invested in it by that Act can relieve this credit burden in selective areas.

Fiscal austerity is clearly necessary as a basic policy. Yet, given the level of uncontrollable expenses and prior year budgetary obligations, it is doubtful hat actual federal expenditures can be held below $300 billion in FY 1975 even if the level of new obligational authority is below that figure.

Seeking a balanced budget is important but equally important are thepriorities established for federal spending. Spiral inflation along with rising unemployment points to the need for public works in private sector job programs but our spending today must be keyed to increasing productivity.

Substantive reforms of our current tax structure is long overdue, particularly as it relates to small business. Further, we must develop ways of providing tax incentives for substantial investments by the corporate sector in minority business development and in the further development of our human resources.

Generally, we must have a balanced tax reform policy which would raise the purchasing power of lower income groups and impose minimum income tax on higher income groups. Increases in income tax exemptions can provide non-inflationary dollars to consumers to offset higher prices.

Revisions in current corporate income tax policies should be tied directly to productivity. Corporations which increased profits by increasing output should be rewarded while those which accrue higher profits through the administered price increases without expanding output should be penalized.

Finally, if we are to turn our economic picture around, we must not only fight inflation but inflationary expectations as well. The consuming public already outrated at the seemingly uncontrollable rise in prices is the single most important element in any anti-inflationary program.

If prices continue to rise, we face the unpalateable spectre of full consumer revolt. The public must have confidence in the integreity of our government leaders and in their ability to devise programs that are equitable forall segments of the nation.

Without that confidence, the fear of inflation will stifle even the most imaginative anti-inflationary policy. If the leadership of business, government and labor does not take the initiative to establish prices and curb inflation, the people most assuredly will.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you Mr. Burrell.

We call on Mr. Shelton Fisher.

MR. FISHER: I represent the McGraw-Hill Company. Mr. Secretary, at this point in the program it is impossible not to be repetitive but since we don't have a complete concensus, I will cast the votes I originally intended.

I propose the following six-point program -- the first three are short-range; the last three would have a longer range effect.

The first step is easier money and lower interest rates. It seems clear to us that the Federal Reserve has simply misjudged the true nature of our inflation virus. The Board seems to assume that we are experiencing classic demand-pull inflation, but a close look at today's economy does not reveal anything like that.

On the contrary, our manufacturing industries on average are operating at only 80 percent of capacity, a rate confined in the past to recession levels.

Real GNP dropped sharply earlier this year, unemployment is rising, business failures are multiplying and industrial production is actually below a year ago. These are not the signs of a fully employed economy, even though we still rank high in the world.

The fact is that today's inflation is not at all a demand-pull situation, but a new type of cost-push inflation, stemming from a worldwide shortage of basic commodities. The surge in the price of these commodities is rising costs throughout the economy, and this rise in costs is forcing up prices despite the fact that some areas of business are hanging on the edge of recession.

At present, the key home construction industry is being crippled and vital plant expenditures are being discouraged. Tight money has reduced output and raised costs but it has not yet curbed inflation.

A measured easing in monetary policy is essential to increased production and put people to work again. Hither production is the best way to beat inflation.

A second step is a cut in government spending. Regardless of the merit of particular federal programs, threre comes a time when governemnt must recognize that everything cannot be done at once -- progress must proceed within some limits.

I believe that Congress should impose a stated three-year ceiling on total federal expenditures, and that it is essential thatthe fiscal 1975 budget be reduced, hopefully, by $10 billion. This tightening in fiscal policy will complement the easing in monetary policy to permit an expansion in production without inflation. Various proposals have been advanced to increase government spending to offset the effect of tight money, but the cure is not an increase in government spending. This is a Band-Aid approach but it does not heal the wound. The cure is to abandon the tight money policy and adopt a tight fiscal policy.

The third step is to increase incentives to the business community to encourage expansion of plants and modernization of machinery. This can be done with a more liberal investment tax credit; increased depreciation allowances adjusted to reflect inflation; and other forms of tax relief. Modern plants mean larger, more efficient output which is the way to bring down prices.

The fourth step, beamed at the longer-range, is the establishment of a National Commodity Reserve through government purchase when supply is ample and prices weak. These reserves would be released on the market only when prices rose more than, for example, 10 percent. This would effectively stabilize prices, and equally important, would make this country less vulnerable to blackmail prices imposed from abroad.

Fifth, Congress should establish an Agricultural Production Bonus Program. Government bonuses would be paid for farm production above the base period. The increased farm production would bring food prices down, and the bonus payments would keep farm income high. No greater blow could be leveled against inflation than a drop in food prices.

Finally, Congress should establish a National Commission on Free Market Prices. The Com mission would be charged with carefully reviewing the many existing laws and regulations which were designed for another time but do not fit the economic realities to today.

The Commission would then recommend to Congress solutions designed to repeal these laws. In some areas we need to start all over again.

All the steps in this program follow one central theme -- what this country needs to bring down prices is more production, more employment, and more plant capaicty. Inflation can be beaten back if we discard restrictive monetary policies and concentrate our efforts on increasing back output.

SECRETARY DENT: Thank you, Mr. Fisher.

We call on Mr. Geier.

MR. GEIER: Phil Geier, Cincinnati Milacron, Inc.

Mr. Secretary, Members of Congress, we support a 1975 fiscal year budget at a level of $300 billion and we endorse a balanced fiscal year 1976 budget.

We believe a closely monitored monetary policy of restraint is a necessary element in bringing inflation under control. We are opposed to all forms of direct wage and price control. Experience has shown that controls over a period of time aggravate rather than alleviate inflation.

We support health, safety and pollution controls but feel that some have been applied overzealously and too quickly. These have resulted in excessive costs and price increases which have increased inflation.

We support the program for increased independence from outside energy and raw material sources but of greatest importance is that U.S. industry must improve its productivity to remain competitive with other industrialized nations in supplying home as well as overseas markets.

Investment in highly productive equipment is the best way for U.S. industry to combat rapidly increasing labor and material costs and thus keep unit manufacturing costs as low as possible.

Since the Korean War, U.S. industry has not invested in new capital equipment at a rate comparable to other industrialized nations. Our investment rate, expressed as a percentage of GNP, has been the lowest of all in each of the last ten years.

Further, many of today's shortages which contribute to inflation are the result of insufficient capacity due to inadequate past investment in equipment and plant.

When considering howto improve productivity and alleviate shortages, it is important to recognize that present U.S. capital recovery allowances are only equal at best to the lowest capital recovery allowances permitted our overseas competitors.

I strongly recommend that the investment tax credit be increased and faster depreciation be allowed on a permanent basis so U.S. industry overall can be competitive in the years ahead so our standard of living can be maintained and so that jobs will be available for our increasing work force.

Finally, we favor a further increase in our historic favorable balance of trade. Thiscan be furthered, first, by early passage ofthe trade bill, a prompt start on t he GATT negotiations and on negotiations to reduce non-tariff trade barriers; second, by making long-term credit terms competitive withthose of our overseas competitors through a permanent strengthening of the Export-Import Bank, and third by a further liberalization of East-West trade.

Thank you, Mr. Secretary.

SECRETARY DENT: Thank you, Mr. Geier.

We are moving on a tight schedule. Where consensus has been achieved, let's merely confirm it and not expand on it.

We call on Mr. Gerstacker.

MR. GERSTACKER: No one in our country wants the kind of inflation we are suffering -- it hurts everyone. We need not only aggressive leadership such as our President is demonstrating, but we need to have all our citizens fighting shoulder to shoulder, voluntarily, to reduce inflation. Then we will get somewhere.

I would propose that government initiate this voluntary, notmandatory, support of the citizenry by means of what might be called a five-and-ten program. Underthis program, government wouldask industry to make a pledge, company by company, not to raise its price index

by morethan a reasonable level such as five percent from Labor Day 1974 to Labor Day 1975 and government would ask labor leaders to pledge thattheywould limit their wage demands to a reasonablelevel such as 10 percent during the same period.

I believe such a program wouldfindthe support ofboth industry and labor,and under strong leadership from the President and Congress we would makethis work.

I would like to see many companies flying a flag that said they were backing the program,the flag being awarded tothose who pledged to fightinflation by staying withih these reasonable boundaries.

If such a positive program wereadopted, Dow Chemical would be one ofthe first to pledge to do its part. Unions, stores andcompanies that met or bettered the standards that we set shouldreceiv public approval.

I don'tknow that five or ten are theright numbers; this should be open to debate, of course. There could be very legitimate reasons for variance in different industries.

The importantthing is to set standards,reasonable standards and get industry and labor to pledge totry to meet those standards.

Within a short time, underthe pressure ofpublic opinion, many would takethepledge andwe would all get togetherand fightinflation. That isthe important thing.

Inflation is simply too much money chasing after too few goods, so our money supply needs to be held to a reasonablegrowth by the Federal Reserve.

At present, the control is too tight.

The other side ofthe story is a supply and demand for food and goods. When demand is increasing faster than supply, you get an inflationary push.

What we need to do is to produce so much food, so much goods, so much of everything, really, that hundry competitors will try so hard to sell their products that prices will stabilize and even decline as is presently happening with gasoline prices, for example.

If we produce more food and goods, that will bring more jobs and more produtivity and this is what we should do -- accentuate the positive, get supply to outrun demand so that we have both more goods and more jobs.

I also feel that interest rates must be reduced right now. They contribute to inflation by raising costs and reducing investment. When reduce investment, you reduce the supply of food and goods.

Capital must be made more freely available, immediately for the investments we need to make in farming, housing u tilities and industrial expansion.

More importantly, governments must balance their budgets -- particularly the federal budget -- and live within their incomes as all of us should. And government should do this by cutting their expenses, not by increasing taxes.

But for all of these things to happen, we need some program to serve as a focal point, something that we can all get behind. I think the voluntary five-and-ten program suggested would do this and do so in a fair and just manner. I believe such a program would bring an increase in the living standard of all Americans.

Thank you.

SECRETARY DENT: Thank you, Mr. Gerstacker.

We call on Mr. Griffin.

MR. GRIFFIN: Hadley Griffin, Brown Group.

The Brown Group is engaged in the production and retailing of consumer products, primarily footwear but including fabrics for home sewing, bikes, trikes, sporting goods.

While our overall price levels have increased, it has been at a rate lowerthan national inflation, although margins are restricted by large increases inbasic raw materials, in energy and inthe cost of capital.

We, like all of you, suffer from inflation. I strongly recommend maintaining federal expenditures below $300 billion in fiscal 1975 and further recommend achieving at least a balanced federal budget through control of expenditures in 1976.

If all this is not totally a federal matter, I recommend that we all use our influence inthe same way onthestate and localexpenditures which are a very significant portion of governmental expenditures and have risen greatly in recent years.

In limiting federal expenditures, no one category can be considered sacrosanct. On theother hand, it would be, I think, unwise to make disproportionately large cuts in otherwise desirable programs. The government, however, must take the lead in putting its house in order.

I would recommend no increase in the corporate income tax. On theother hand, I wouldnot oppose an increase in personal income tax at higher levels maintaining the limitation on earned income.

I recommend thattax incentives be strengthened in the areas of production to hold down cost of basic materials and to increase productivity. Tax incentives for individual investment should beprovided by a substantial increase in the dividend credit so that it becomes meaningful to the small and moderate investor in the form of a tax credit for investment in savings institutions.

We need moderate expansion ofthe money supply to support projected long-term growth in the GNP and as near as possible this expansion should be on a consistent basis. Theneed to encourage capital formation inthe years ahead is of such great importance that it is for thisreason I feel no increase incorporate taxes is indicated and that incentives to save and invest on a personal level are important.

While we must not turn our backs on progress against environmental problems nor permit actually dangerous conditions in our industrial plants, this is no time for the overzealous attitude by either EPA or OSHA.

As a producer for generations of nationally advertised branded goods, we feel that the consumer discrimination has been underestimated by those who feel the consumer needs constant protection. I oppose wage/price controls but do feel that guidelines properly propounded and accepted could be of value.

Conservation of energy is and will remain of great importance to this country. Reducation of our heavy reliance on foreign sources, especially for petroleum, should be a priority program and to the extent possible, cooperation with other petroleum consuming nations toward achieving a more reasonable petroleum price in the context of consumer energy should be pursued.

We must not permit ourselves to be lulled into the situation of believing that our energy crisis is not a severe problem.

I concur in the proposal that the government, if necessary, undertake employment should economic conditions temporarily raise domestic unemployment to an unacceptable level.

Since inflation is a social and political problem as well as economic, there is a great need to inform and educate the American public to understand what makes our system tick so all can participate in the fight against inflation by increasing productivity, by personal saving, and by energy conservation.

We must not forget that increase in productivity does not come solely from capital investment, but is very importantly an attitudinal problem for each and every one of us at every level in our society.

Thank you very much.

SECRETARY DENT: Thank you.

We will call on Mr. Gaudion.

MR. GAUDION: Donald Gaudion, Chairman of the National Association of Manufacturers.

Mr. Secretary, I think that in a democracy problems frequently have to be recognized as reaching crisis proportions before action is initiated.

Hopefully, these meetings will establish inflation as our number one problem.

There are no easy answers to inflation unless we want toseverely deflate through an experience like the mid-thirties where corporate profits disappeared and we had over 25 percent unemployment. There are a series ofthings we can do to reverse the inflationary trends we set in motion and gradually work it out ofthe system.

1) The disorganization and demoralization of financial markets is partly theresult ofmeasures taken to curb inflation, and partly the result of the inflation itself. It ismade worse by artificially-imposed limitations such as state usury laws and ceilings on interestrates paid by savings institutions. Our financial institutions generally were not designed for, and do not work well in, a period of inflation as bad as the last two years.

The conclusion I come to is that we will need to maintain a posture of severe restraint on money and credit expansion, but that suchrestrictions cannot do the job alone without courting disaster.

We must develop fiscal responsibility in government. We must slow up the establishment of great new programs that we cannot afford. We must let business, the goods and payroll production side ofour society, alone for a while ratherthan badgering it with more anti-business legislation-- orwe will kill the goose that lays the golden eggs. Weneed time to digest the programs already inbeing and get the budget in balance -- at a level of spending that will not continue to rise as steeply as in the recent past.

We must encourage rather than discourage savings and capital formation if we are to build the productive capacity necessary to meet unprecedented global demand. This involves reversing tax policy insuch areas as capital gains and depreciation.

As someone said before, we are living off our seed corn.

There must be mutual recognition by employers and employees -- both of whom are victims of this inflation rather than its cause -- that efforts to raise real wages by large increases in monetary wage rates are futile and counterproductive. They spread the inflation through the industrial sector, instead of restoring the purchasing power ofindustrial employees.

A forthright renunciation ofwage and price controls, by both the Administration and Congress, will be helpful inrestoring confidence. Eventhe fear that such controls might be reimposed has adverse economic effects.

Thank you very much.

SECRETARY DENT: Thank you, Mr. Gaudion.

Mr. Towey.

MR. TOWEY: I am representing the Olin Corporation.

Mr. Secretary, I will try to be brief. We are completely in accordance with the efforts to reduce federal outlays this fiscal year below the $300 million. It would be difficult to achieve a balanced and at least a balance in '76 with a surplus if possible. We concur with the previously expressed feeling that taking $5 billion out of a $300 billion budget is certainly a do-able task.

Effects of highly restrictive monetary policy if prolonged can be very dangerous. There are apparent signs of easing and we think this is good. High interest rates have an effect on residential construction. This is a disporportional burden on the American people. We nominate this as a long-term structural problem that demands attention so that every period of high interest rates does not claim housing as its most seriously wounded victim.

We believe there has been adequate evidence that price and wage controls not only don't work, but are counterproductive and we hope that these are not being seriously intertwined.

In the environmental area we urge common sense. Consideration should be gieen to the delays for the stretching out of low-priority programs that would release funds for expansion purposes which would help reduce inflationary pressures.

We all know that inflation has long-term roots. It cannot be solved in the short-term by any sweeping actions. Our principal plea is that our future long-run health as an economy is not sacrificed through short-run stopgap actions. The cure for inflation we believe is rooted in increased productivity by means over increased capital accumulation and by means of increased personal effort. Increased productivity should be our first priority.

SECRETARY DENT: Thank you, Mr. Towey. We now call on Mr. Thomas.

MR. THOMAS: I am President and Chairman of a Wholesale Distributor in Arizona. We are in a 1 percent market buying products from several hundred of America's major manufacturers of consumer goods.

We sell our products to the National Retail Chains, Small Retailers and Home Builders in Arizona, New Mexico and Nevada. I am a member of the National Association of Wholesale Distribution and part of an industry that sells approximately 400 billion dollars worth of the nation's gross national products.

Our industry has over $90 billion in accounts receivables under extreme pressure. Many of our customers have liquidity problems and it is a race for the money. By the second quarter of next year, deflation could well be upon us if some decisions aren't made rather soo n.

We are charging more for things because of higher costs. We try to pass these costs along to our customers. Some industries are doing it profitably. Distribution is not.

Four costs that we can't control, that can't be shopped and that have added greatly to our selling prices, are: Taxes (property and income) Interest, Fuel and Freight. These costs can all be lowered through Federal Government tax reform, personal and corporate; fiscal polich, a balanced budget; international, economic policy; and elimination of regulatory inefficiencies.

Small business needs the 100,000 minimum tax rate ceiling as proposed by Senator Tower. Investment credit is of little interest but helping small business retain earnings for survival helps all of us and should result in a net tax gain. The consumer making less then $12,000 a year also needs relief.

A balanced budget means less government competition forsavings and, therefore, lower interest rates. I fully support a balanced budget, budget reductions and cost cutting. I would be happy to pay a 10 to 15 percnet person and corporate surcharge to get it.

Competition, of course, is an essential anti-inflation tool thathas been blunted.

1. Congress must quickly eliminate the numerous regulatory statutes that restrain competition, productivity, and artificially maintain price.

2. Our multi-national firms need U.S. Government help to successfully compete with foreign industry and their governments. I like the idea of the 55 mile per hour speed limit.

3. Anti-Trust laws should be vigorously enforced and apply toth to organized labor and business.

I like and support the:

1. Federal Reserve Board's monetary policy

2. Using the Federal Government as the "Employer of Last Resort" and

3. President Ford's ability to make unpopular desisions. We need more of them.

SECRETARY DENT: Thank you.

We now call on Mr. Platts.

MR. PLATTS: Whirlpool Corporation.

My suggestions embrace several areas:

1. Fiscal policy. Stated simply, expenditures should not exceed income during Fiscal Year 1975. Not only will this contribute to the resolution of inflation, but the resultant reduction in government borrowing will reduce the competition for such capital and contribute to the needed reduction in interest rates.

2. Monetary policy. Federal Reserve policy of reasonable constriction should be continued until such time as interest rates decline, reflecting a reduction in the demand for credit.

3. Investment Tax Credit and Modernized Depreciation Schedules. Demand for many basic materials now exceeds basic capacity in these industries, resulting in a continued escalation of prices. In the absence of significant investment in added capacity this demand-pull inflation will grow. To satisfy these capital needs, liberalized depreciation schedules and increased investment tax credits will be required -- in addition to retained earnings -- to fund suchadded capacity.

4.The cost of capital should be recoverable in no longer than five years forplant equipment and ten years for the plant cost itself. The state of today's bond and quity markets render them virtually useless as sources of capital.

5.Unemployment, Social Security and Social Welfare:

A major restructuring of our National approach in the above named areas must be undertaken from an economic rather than a political posture. That portion of our population represented by the Social Security age group, on the one hand, and the unemployed Social Welfare group, on the other, has reached a state where the total demand on the productive portion of our poulance can no longer accommodate the tax demand in terms of current growth trends.

6. Government Controls and Regulations: Wage and price controls were tried, failed, and should not merit future consideration. Federal regulatory interference with our economic system is inevitably detrimental. Existing regulatory agencies should be reexamined to determine whether they do not more interefere with economic progress rather than contribute to it.

7. Future Economic Direction. The Congressional Budget Act of 1974 should be fully implemented to establish governmental expenditure priorities and limits within the framework of federal income in concert with a monetary policy of a sustainable character. Priorities and expenditures must be established on an economic rather than a political basis.

I thank you for this opportunity to offer my views.

SECRETARY DENT: Thank you, Mr. Platts.

Mr. Shapiro.

MR. SHAPIRO: Mr. Secretary, the hour is late. I speak for the Dupont Chemical Company.

As the first step in the war on inflation I will conceed half of my time.

In an effort not to duplicate what has already been said, let me say, first, that I have filed a lengthy written statement. We earlier submitted one to Mr. Rausch so there is documentation for what I want to say.

We have all talked as businessmen today but I think one important point ought not be overlooked. Inflation affects everybody in the country -- not just businessmen and therefore it is a moral and practical imperative that proposed cures be compatible with the needs of all segments of society. When we look at the problem today as businessmen we should bear in mind next week we will have to be thinking about compromises as all the groups come together in Washington.

With respect to tax incentives going toward tax accumulation, enough has been said and I support what has been said and I want to move on to other subjects.

One of those that I think needs more statement than has been made is the subject of costs that derive from the overregulation of industry by government. In case after case, government regulation in the field of energy, transportation, pollution control, safety and employment practices has hampered productivity and increased the cost of production to a degree that has negated the intended benefits to the public.

I would quickly say that the objectives of such regulations are almost always commendable but the legislative process has been hasty in some cases and administrative procedures have very often been short-sighted and parochial.

I would suggest the creation of a mechanism that would require public disclosure of the economic consequences of all federal programs and regulations. We do it now with the environmental impact statements and I suggest that the government itself should require itself to publish economic impact statements as a similar means of self-discipline.

Finally, Mr. Secretary, I would add one additional point: There has been an abundance of words about inflation. The time is coming quickly for action. I would hope that in the period between now and early November the Administration couldput together its legislative package and that, beginning in November and December, the Congress could be asked to act and take steps that would get the country moving again.

SECRETARY DENT: Thank you, Mr. Shapiro.

As you know, Dr. McCracken had been appointed to pull together all of the suggestions and prepare a package for the President's consideration and decision.

I congratulate each and every delegate. We have made the full circle.

After lunch we will return to sharpen the focus on the several issues which have been brought before the meeting.

Luncheon for delegates and government representatives will be served in the Hilton Room Number 3 directly beneath this ballroom on the mezzanine level -- a set lunch, set price, uninflationary price of $6 will be extracted.

(At 12:30 p.m., the Conference recessed to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

2:00 p.m.

SECRETARY DENT: Ladies and gentlemen, a word first of all for the press. We are pleased to announce that a complete transcript of the morning session wil l be available in the press room before the clsoe of this afternoon's session.

Now I think that is responding to your productivity suggestions pretty well.

[Applause.]

We will get copies to all of the delegates as well.

At two o'clock today the Commerce Department is releasing in Washington to the press a report on corporate profits for the second quarter of 1974. I am also releasing a statement both here and in Washington commenting on this report for use by the media at 3:00 p.m.

It will be available in the press room. The report shows that corporate profits in the second quarter were at an annual pre-tax rate of $134.5 billion up 3.5 percent from the previous quarter and 14.9 percnet higher than a year ago.

However, as my statement observes, $38 billion of these profits can be attributed to an upward valuation in inventory reflecting the impact of inflation. There would have been a decline in profits from the first quarter if there had been no adjustment for inflation.

We would like now to get on with the focusing of the discussions which came forward this morning. One of the objectives that we were trying to achieve was to develop areas of hardship that need special consideration. It seems to me to be obvious that housing has been mentioned frequently.

The question of unemployment also needs concern. There was mentioned not as frequently as we heard before, the utility capital investment. I wonder if there is any discussion of area of hardship in the economy.

All right, we will move on then to the question of ---

MR. SMITH: Mr. Secretary, Smith of International Paper.

A considerable volume of our business is in the lumber and solid wood, plywood and so on business and I cannot let it go without emphasizing that this industry is in desparate shape in terms of volume of business and in terms of prices thatmany companies are closing down, many of the smaller sawmills and plywood mills are going bankrupt and if, as and when housing starts up again, it could well be thatthere will not be the production capacity available to supply the solid wood products needed.

The net result is that the industry wlll then be accused of greatly inflating prices but it is really this rolley-coaster effect right now. Housing starts are down 60 percent of what they were ate the early part of 1973 and this is a disasterous drop.

SECRETARY DENT: One question: Appropos of this plywood and lumber situation, about a year ago our Department was beseiged with requests for export controls. What is the status of export demand for lumber products?

MR. SMITH: Well, export demand has considerably fallen off as it was a year ago, but the industry would be in worse shape if it were not making exports to Japan and some to Europe.

Further than that, I think it is quite significant that controls were removed from solid wood long before they were removed from most other manufactured products and the interesting thing that prices had started down in that field even before the decline in housing starts illustrating again that the market correction that takes place in the absence of price control.

SECRETARY DENT: Thank you.

Any other comments on other areas?

Yes, Mr. Gerstacker?

MR. GERSTACKER: Mr. Secretary, it seems to me we would be quite parochial if we forgot about the farm hardship, at least in the areas of animal husbandry. I think there are some real hardships in that area which may hurt the supply of food and meat for the future unless people are aware of the farmers' problem.

SECRETARY DENT: Thank you. Are there any other comments?

Well, let's move on then to the questionaires that were submitted. One item on there related to fiscal expenditures. The question of maintaining federal expenditures below the $300 billion level in fiscal 1975. There were some who felt there should be no cutback, but I believe that an overwhilment majority felt that this budgetary goal was essential.

Now, it seems to me tha it might be useful if anyone could identify areas more specifically that the Congress and the Executive should consider for this cutback of at least $5 billion, perhaps more.

Mr. Miller.

MR. MILLER: Mr. Secretary, have we taken adequate account of the size of the cut that would be required to have a net effect of a $5 billion reduction? I have a feeling that in the probable effective inflation rate in the government is higher than for the country as a whole because it has a high service content. If the inflation rate is 10 percent or greater, you have to cut 10 percent just to stay where you were. I am wondering as you intend to cost out the suggestions that are made here, you had better include the inflation rate on the government goods and services as part of the problem and I have not heard that mentioned much and also cost out a reduced tax revenue which I and others have proposed to you in the way of aids to including the investment situation and then take account of what we have said about a balanced budget, what is required to fill that difference.

I think we are all talking about a very much bigger gap than we might imagine.

SECRETARY DENT: There is no question as you refer to

the investment tax credits, depreciation and all. This will affect the income side.

Mr. Morgens.

MR. MORGENS: I think on this subject it might be worthwhile pointing out that even if there is a $5 billion cut in the federal budget that there will still be a considerable increase in federal spending this year against last year.

If the budget is held at $300 billion, if my figures are correct, there will still be an increase in spending of $32 billion compared to last year. What is more, there will still be a federal deficit in my judgment if it is held to $300 billion.

I think certainly it should be cut to at least $300 billion, but in the next fiscal year budget, which I assume is under preparation right now, we ought to really make sure it is in balance.

SECRETARY DENT: Mr. Blackburn.

MR. BLACKBURN: The question comes to my mind as we speak in terms of a balanced budget as to just how many of the participants here realize there is some debate in Congress as to whether or not the unified budget concept that we use as a fair reflection of government expense versus government income. In a conversation with Dr. Burns this year before my committee, I asked him if he thought that the deficit which is being discussed for this year of some $4 billion or $3.5 billion was a fair reflection of the acutal deficit and he was very candid in saying that he thought a more honest appraisal of the deficit would be in excess of $20 billion.

So, when we speak in terms of a balanced budget, I think a little more candor in government would lead us to conclude we could not be speaking in terms of a $5 billion decrease in spending, we would be speaking in terms of a $20 or $25 billion decrease in spending.

SECRETARY DENT: Mr. Gerstacker.

MR. GERSTACKER: Mr. Secretary, I think I would like to make a point about the difference between domestic and foreign expenditures. Concern has been expressed about an unemployed in this country and the need to keep the economy strong.

I would like to advocate that the cuts be more severe in foreign expenditures than in domestic expenditures. For example, the cost of our troops in Europe, I do not think that when Europeans buy our government bonds that should be paying for the cost of our troops in Europe.

I ever quite understood how that pays for it. I also think we have things like $11 million of military aid to Ethiopia. I think that is where we should make the most severe cuts domestically if we are successful in reducing interest rates and the total debt of the government. Of course, that would be a reduction in cost of government.

SECRETARY DENT: Thank you.

Mr. Scott.

MR. SCOTT: Walter Scott from OMB.

I would like to comment on a couple of aspects raised by several of you.

First, Mr. Miller mentioned the inflationary impact and the rising cost and so on. This has just as significant or even more so implication on the revenue side or at least has historically. This is not to rationalize no expenditure cuts but typically the revenues have risen faster than expenditures because of the fact that so many government serivces were contracted in advance or in fact entitlement levels and so on are in fact established in new, therefore there can be some time lag although the benefits have grown much faster than inflation with Social Security and the largest case in point. Neverthe less, as the economy begins to lose some of the steam as it has done within recent months, that dimensions of hat situation change somewhat so that the revenue side of the budget which is probably going to be about $295 billion in terms of recent estimates has held relateively static despite the rising rate of inflation because of a somewhat diminished outlook for the kind of

growth of corporate profits that we thought we saw earlier in the year.

As a result, this suggests if we are going to come close to a narrowing gap that we really must in fact come to grips wit the programs that must be cut to get us down to through $300 billion and also recognizing that probably now even with legislation we are not going to get more than six months worth of those cuts.

So that the basic cuts we are looking at are much more substantial than that in terms of programs. Now, that will have lots of benefits, however, as we move into the 1976 figures and are attempting to try for a balanced budget.

Now, as you may have seen within some of the newspapers and so on, the revenue estimates for fiscal 1976 are at about the $330 billion figure. The unconstrained continuation of existing programs at their present levels would head us to an expenditure figure now of something in excess of $340 billion.

Therefore, that means that if we want to in fact balance the budget at a figure of $330 or somewhat less billion, we have to make cuts in the existing programs and we cannot pass the additional programs that are going to in fact put on continual upward pressures.

Also I might mention another aspect of this which makes the job even a little bit tougher. If we cut $10 billion out of the budget, presumably this results in some increase in unemployment. It has an implication of that kind in which there are expenditures automatically built into law, unemployment compensation and so on and that makes it just a little tougher to be getting down the absolute expenditure figures.

Finally, perhaps to expand on the comments in terms of also called off-budget kinds of items. I think we should never lsoe sight of this, that the unified budget does not really tell us the whole story and in fact there are major governmantal borrowings and major governmental influences that exist on markets.

I think it really behooves us to be all pushing to get these things back into the budget so that we can get a single look in terms of what is happening. I will mention the fact that within the 1975 budget the so-called direct loan programs of the government where it is making direct laons to small businesses or whatever it may be, the outstanding totalled $48 billion.

However, of the off-budget instrumentalities, the total was $86 billion and in addition to that, there were federal guarantees of $170 billion. So the influences on capital markets are immense beyond the pure Executive Branch operations that are included witin the budget.

SECRETARY DENT: Mr. Gerstenberg.

MR. GERSTENBERG: Would you care to share with us, Mr. Scott, the sort of assumptions that might be behind the forecasts that you just related for 1976? Is there any way to generalize on whatyou think the economy is going to be doing, that would lead you to that?

MR. SCOTT: I should delegate that to the Department of Treasury which comes up with hese estimates. I suspect there is a current updating of these estimates taking place. It is my suspicion that the revenue side of the budget which I think you are accressing yourself to is currently understated.

However, it is probably overstated to some extent in terms of the ebullients of the economy. As I recall these figures, and I would hate to be held to them because I am not aware of what they rae, any recent updatings, that within those figures were something like a 7 or 7.5 inflation rate which is obviously totally unrealistic notice for the fiscal 1975 year.

I would rather not pub in a figure in terms of growth in GNP what was in it because I don't really call the figure but the two may offset themselves in terms of dollar size -- not the real dollar. That will have implications for the budget but the revenue side will be something of an offset. Maybe Dr. Fellner may be more up to date in terms of those budget figures. We are all looking toward a much higher inflationary rate an nclose to the double digit in the fiscal year we are in now.

SECRETARY DENT: Mr. Conable.

MR. CONABLE: Thank you, Mr. Secretary.

This is a terribly troublesome area, the area of the balanced budget. Quite obviously historically it is -- and also in terms of the furstrations that anyone whose heart is in the right place feels as he approaches this problem on a day-to-day basis in Congress.

I think it is fairly safe to say that most people greatly overestimate the impact on the probable inflation rate of the kind of modest cuts that we are talking about and yet we have had a pretty clear demonstration of how those cuts are going to affect people in marginal areas quite significantly.

I think also that it is awfully easy to look at this pretty purely from the point of view of expenditures and not from the point of view of revenues. Almost everybody here today has advocated substantial tax incentives for business. Such things as increasing the investment tax credit to 10 percent or exempting the interest on savings accounts.

You are talking about billions of dollars in these and I don't have the figures for them readily available. I can explain one or two for you.

The cost of exempting $750 of interest on savings accounts would be $1.6 billion. That means that you would have to match such an incentive with additional cuts of $1.6 billion if you are going to achieve a balanced budget.

Now, that does not mean it is not a worthy thing to do. I personally think that may involve chasing yourself around the barn to a certain extent, because the government is going to have to go out and borrow that $1.6 billion. Either that or some other way.

But, it is a very frustrating thing to find people looking only at the expenditure side at the same time they are suggesting very substantial reductions of revenues for laudable purposes, but don't forget that most of these government expenditure programs are for laudable purposes, too, and it involves the

reconciliation of a wide range of conflicting claims in every circumstance.

I think we have to keep that in mind and I think it is also important to remember that the psychological impact ofwhat we do may be much more important than the economic impact measured in actual terms.

The typical American is going to look at the results ofthis Conference and what the Congress and the Executive do with the next budget and ifwe have not in some way demonstrated the willingness to hold to some discipline, then we are going to have a perfectly incredibly unbelievable effort at controlling inflation generally in the eyes ofthe average American.

So, the psychological impact becomes perhaps more important than the economic impact itself, and it is important that we cut X-billion dollars or that we balance the budget at some point, but that we reflect in our dealings with the people's business the kind of discipline that will be credible.

SECRETARY DENT: Mr. W. Johnson.

MR. W. JOHNSON: Mr. Secretary, small business feels very strongly that the cost impact of all legislation that appreciably affects the budget should be more thoroughly studied in advance of enacting that legislation.

I would appreciate a comment as to whether or not this is realistic.

MRS. GRIFFITHS: We are to some extent already doing that, not to all extents though.

One of the things that I thought of as I sat here while each of you suggested ways to save money, not many of you suggested ways in which to tax money. At the present time, there is an enormous growth of untaxed funds being set aside in this country to provide for peoples' old age, not alone the social security but all these pension measures.

Ten years ago, I looked at those funds and I think there were $4 billion. Today, there is $126 billion set aside to pay peoples' pensions. Not everybody gets one. In effect, if you suggest increasing the rate on everybody, you are asking some people to pay an increased rate who do not nave a provision for their old age while others are providing for their old age and paying an increased rate.

In addition to this, nothing has been said about the fact that we are paying out of the Federal Government, for instance, in unemployment compensation and all things attaching to it to a man with a wife and two children who draws $6,000 and is unemployed, in many states represented here, that man once he is unemployed is getting more money than he drew while working when you add all the things together he can get. That money is not taxed.

In addition to that, you are maintaining many women and children all untaxed than many eople are working for and they are paying taxes.

An elderly couple is not going to pay taxes on the first $4500 of income, but a young married couple is paying a whale of a tax on $5000.

It seems to me one of the things we should be asking ourselves is how long can you afford to let this money go untaxed into the general funds of the United States Treasury and still provide all these other services.

But, we do attempt now for the first time, and I might say John Burns, who was the ranking man on Ways and Means for years, was one of the people who pushed hardest on asking us to estimate the cost of many of these things we have set up in the future.

Now, they are not all costed out and many of the things that are not are the rental subsidies to housing and other such things. The things that go into welfare you do not necessarily look at from that standpoint. But, it is a good idea.

MR. THOMAS: We are looking for revenue and one of the exciting things about Mr. Scott's handout was this thing called offsets. This says minus 11.8. It says off-shore oil and receipts.

This is quite encouraging. This is income, revenue from the businessman's point of view and it is also a reduction in the net 305.4 budget. I am saying this is an area that could be further exploited. The government, particularly the armed services, has literally hundreds of millions of dollars in assets, in real estate, serving little or no function.

The presidio in San Francisco, half of the Bay, Fort Hamilton? I am saying consider liquidating some of these for immediate cash.

SECRETARY DENT: Thank you.

Are there other comments?

MR. SMITH: While we are on the subject of income, the President's Advisory Committee on Timber Resources came up with the idea that harvesting in the national forest could be increased 39 percent and still maintain all of the advantages of watershed protection, scenic beauty, public recreation, etcetera. If this were followed, this committee's recommendation, the Federal Government would realize a very substantial increase in income and it would be on a renewable basis because it could be on a perpetual harvest approach.

SECRETARY DENT: Thank you.

Are there other comments? We still have not zeroed

in on where to get the $5 billion other than foreign expenditures.

Then the next question is the matter of the 1976 budget. I gathered from the sense of the meeting this morning there was general agreement that this recommendation on this would be a balanced budget for 1976.

CONGRESSMAN FORD: I was waiting because I think the two are interrelated.

As Mr. Scott indicated, when you start talking about cutting $10 billion from the Federal Budget, you have to cut something more than $10 billion to net it out because you are going to turn around and increase the automatic expenditures we have to make for unemployment compensation, for welfare, other kinds of human services that are no longer going to be paid for by somebody who is employed when you get that reaction from the cuts. That is just one of the problems.

There were only about three people this morning that I recall, when talking about government expenditures, also included State and local government in their formula for what government expenditure was.

I suspect that to some degree the amount of money actually spent by government is something less than the figures shown because it is counted at the Federal level and distributed to the State and it gets into somebody's set of statistics for State money and it gets counted again when distributed to somebody's school district.

Laying that aside, the fact is the rapid growth of government expenditures has been at the State and local level and a large part of that expenditure made by the local officials comes through the Federal Treasury.

At this very moment we are being deluged with letters from every mayor and city councilman across the country, "Please don't let anything happen to the renewal of the revenue sharing program."

Now, if, for example, you were going to cut out one of the programs like that to cut back on the Federal Budget,

you would not be saving any money in the long-run because, presumably, these communities are using revenue-sharing money for needed public services and this is relieving them from increasing local taxes. So, as businessmen you might decrease the Federal Budget at the expense of forcing the community that you are doing business in or the State you are doing business in to replace those Federal funds with higher real estate and perhaps State income and excise taxes.

So, I guess I am agreeing with Barber Conable when he says you have to keep thinking about where the money is coming from when you are thinking about holding the expenditure, and the additional factor when you look at balance 1976's budget, whose budget are you talking about balancing?

We cut $10 billion in the area of HEW, for example, as somebody suggested this morning. I recall one person seemed to think that was the easiest place to get the money.

Cap Weinberger has probably been a little more skillful than others intying down the money but it would be one ofthe most difficult political places toget it.

But for a longtime youwouldnot knowwhat the net out of a reduction inspending was because this is for services that one way or another are going to be paid for by state and local government.

So, you might cut $10 billion in those service areas and replacethem withsomethingless than $10 billion, but substantially the same cost at the state and local level.

When you think about balancing next year's budget,you would have torecognize this cut this year would increase the pressure next year toreinstate or increase the payents inthe areas that got more pressure as a result of this year's cut; to wit, a cutthis year will increase the pressure for the size ofthe Emergency Public Employment Act, where you are talking in dimensions now of $3.5- or $4 billion, next year as a result of this year's cutyou may be talking about a cut of $7 billion in that area.

If you arethinking of balancingnext year's budget you have tothink interms ofwhat you have already decided onthis year's budgetand what impact it will have onthe uncontrollables that will pop up next year.

DR. FELLNER: I would just like toask Congressman Fordwhether hewould not agree withthe following proposition: that in the present circumstances ifwe reduced the federal budget, the expenditures, the outlays which a certain amount, $300 billion, would be a reduction realistically seen by morethan $5 billion, if you compare the three hundred with what this would have risen to if Congress had not started taking a stiffer attitude and ifthe Administration had notstarted taking a stiffer stand.

In the present circumstances the credit markets would be eased and consequently there is a very good chance that private expenditures would replace these public expenditures and that those additional welfare expenditures would not be required, hopefully.

CONGRESSMAN FORD: Dr. Fellner, I can't recall one person here in this Conference who if they mentioned it at all had not suggested that we are looking forward, no matter what we do, to a period of increasing unemployment.

That is a fact of life that we have already come to live with in Washington and it is true that something might have happened at some other stage but there is going to be more unemployment and we know it is not just the unemployment check or the welfare check that we are talking about. We are talking about lost revenue.

Unemployed people don't pay taxes. That is loss of revenue to school districts and cities and that increases pressures.

DR. FELLNER: But not caused by federal outlays provided this eases credit market conditions which it would and investment expenditures and reduces the shortage about which we were talking.

CONGRESSMAN FORD: We all have different ideas about where the cuts would take place. I have come to the conclusion that there is so little of the budget for us to work with that there is very little you can do in cutting the present budget without having a very direct effect over the level of unemployment.

We are just down to that few dollars that are left.

SECRETARY DENT: I think that we want to devote the afternoon to the private sector.

Mr. Morgens.

MR. MORGENS: I would like to suggest there is really no end to the desire for public services except

the limit on what you can afford to do. There is no end to the desirability to human needs except what the country can afford.

That applies to our united appeal campaigns as well as to the government.

I would like to suggest if the budget was $355 billion, you gentlemen would still be saying you can't take $5 billion out of it. There will always be a demand for any given amount of money that is available. At some point somebody with responsibility in government, I think, has to say what the limit is and what the country can afford.

Many of us would be willing, I think, to raise taxes if that meant a balanced budget or a sounder fiscal policy. The trouble is that every time taxes have been raised the government has always spent a little more than has been raised. They don't think that is the answer.

On the point that Mr. Conable made about the psychological importance of cutting the budget, I think that is very sound. I think the business and the financial community, unless the government is willing to balance the budget, just thinks the government does not care about stopping inflation or, if it cares, it does not have the will to take the steps that are required to take it.

CONGRESSMAN BROWN: I would like to inquire of the panel what you mean because most of you in the course of talking about increasing investment tax credit have said selective increase. I think when Mr. Conable mentioned a $750 exemption from income tax for interest received -- when he talks about that and gives a budgetary figure, I think he is talking about all interest, not just passbooks.

CONGRESSMAN CONABLE: I am talking about passbook interest.

CONGRESSMAN BROWN: What do you mean by "selective increase" in the investment tax credit?

MR. KAISER: I know what I meant because I am one of the ones who used it. To pick one of our basic causes it is shortages. Therefore, to pick those areas of the economy where there should be an increase in production to alleviate that shortage, and I also think that the investment tax credit creates employment, alleviates those shortages.

So, Mr. Conable, there are some areas of those credits that produce more revenues and they produce them in the form that is more constructive for the country.

CONGRESSMAN CONABLE: Mr. Secretary, I agree with that and the question is: How selective do you really want to be. Of course, if you are going the investment tax credit route, you are benefitting somewhat more the capital intensive industries than those which are not capital intensive.

The usual way to finance such things is to increase the overall corporate income tax. That would at least be one of the most pallatable ways of doing it and thus reducing the amount of discretionary money available for non-capital purposes available within your corporate treasury.

That may work very much to the etriment of some other businesses. There is a certain amount of selectivity implicit in all of these devices for production stimulation that you are talking about, and that you are going to have the outcry that favoritism has been laid by the government. That is one of the reasons why change is so difficult in government.

One of the reasons government winds up being the most conservative forces in the world is simply because every time it lays its hand on something it creates the implication of favoritism.

MR. ROOSEVELT: As I look at the chart that Mr. Scott gave us this morning, I think if you look under the entitlement program figure, which comes pretty close to being 50 percent of the entire budget requirement, I would like to inquire as to how much thought has gone into whether there are any possible reductions in that entitlement program.

I know that politically that is a very difficult area. But, let me give you just two examples:

A man goes into the service, the military service, at a fairly young age. He gets out when he is in his forties low forties or even lower -- and he draws a very substantial amount of retirement pay and he can still go out and be a very productive person on his own.

Just to make this very personal, I draw a Congressional pension. I am very happy to have my pension and I am very happy that it goes up on a cost-of-living basis every four or five months or every three or four months, but I am wondering if you ask me if I would give up one of those cost-of-living increases if I would not be willing to do so for a period of six months or so.

In other words, has anybody really costed out whether or not there are any possible savings on a reasonable basis andwhat is the largest amount in the budget at the present time?

MR. SCOTT: Clearly, as the Executive Branch is reviewing programs and attempting to identify opportunities for text, the entitlement programs must have that kind of scrutiny and I would say the same thing about Congress, that they review these opportunities.

The President, as you know, is considering areas where we can make cuts. That is onereason for includingthis list. We have to look through these things which have been sacrosanct to see in the relative priorities ofthese groups differ now from when original legislation was passed.

One ofthereasons onthat chart for including the list of beneficiaries is to give you a little idea of the political heat and support andresistance to changing the entitlements or the levels or the number of people encompassed.

Nevertheless, you are right. The big dollars are there. As difficult as thetask is, we have to look to those programs for bearing a fairshare of the burden.

MR. ROOSEVELT: Itis a question of who is willing totake the heat.

SECRETARY DENT: Doyouw ant us to report your offer to Mr. Ash aboutthe pension?

MR. ROOSEVELT: Yes, I would be happy to.

SECRETARY DENT: There was one interesting observation made this morning addressed to the Congress that we should reveiw our tax policy with the idea of redirecting it from consumption to saving.

Our economy as a whole has been consumer oriented and largely sustained at the consumer level. I would like to address the question just for a little bit more penetrating discussion as to whether this is a consensus.

CONGRESSMAN BLACKBURN: I would like to a question of the group.

We all agree that we need to form additional capital if we are going to have the resources for increased productivity. What would be the thought of the group if we should begin to distinguish, for the purpose of deducting interest on loans, between those loans which have -- and I am talking about individual loans now -- socially desirable purposes such as home ownership or home improvement and purely personal loans that have no purpose for which society as a whole has a legitimate interest.

For example, if I take my wife on a trip to Bermuda and charge it up and charge off the interest on my income tax, I don't think society has any great interest in that; yet, I am allowed to do that today.

Would a change in the deductibility of interest have any impact on savings? Does anyone have an opinion on that?

MR. KAISER: As you probably know, there is already a policy in many of the banks that they will not today make a loan on a second home. In other words, they are starting a policy with the tight money of trying to set guidelines for the best use of those funds.

CONGRESSMAN BLACKBURN: That is a bank policy. Maybe the federal Treasury should be making the distinction.

MR. CONABLE: If the federal Treasury did, you had better be prepared to give up your privacy because there will be an effort to trace funds constantly.

CONGRESSMAN BLACKBURN: We don't have much, anyway.

MRS. GRIFFITHS: You would have to limit the amount that could be paid for the home. You could not deduct the interestunless the home were $35,000 or less. Otherwise, you would run upthe price of homes.

SECRETARY DENT: Mr. Gerstacker.

MR. GERSTACKER: It just is not practical to differentiate in interest. It just does not work because the person willthen do all of his borrowing from home building and he won't ever borrow to go on the trip as you outlined.

You will have to have so many government people tracking people around that the inflation will increase ratherthan reduce.

SECRETARY DENT: Mr. Jones.

MR. JONES: Mr. Secretary, I am personally very interested in the idea of the savings rather than consumer-oriented savings in our GNP.

I can remember just a few days ago in trying to tell my son the reason why he should not take his $25 out of the bank. He was telling me that inflation is increasing at such a rate that it wouldn't be worth anything anyway and he might as well spend it.

Our problems as minorities, I think, are compounded tremendously by the fact that we do not have that as an option of just increasing our capital through savings any longer. It seems the only way out we would have is through some other type of investment which also appears not to be open to us in terms of business development.

In terms of the course we had been discussing, we seem to be talking about capital investment or raising money for investment only in terms of capital equipment. We seem to forget what my colleague Mr. Burrell talked about today that there is a large number of human resources also available that could increase our GNP.

It has been estimated more than $100 billion could be brought into the GNP if minorities really fully participated in our society.

We also understand, of course, this would also cost us some money in terms of investment. Perhaps it has never been tried because of the fact that, one, we are never sure it would be successful that it would work, and this may be a reason. I would hate to feel there are some other reasons why it has not been done other than that.

I think our association has some pet peaves where you would consider cutting money out of the budget. These would be programs that really offer little to minorities in terms of human development.

I would just like to name a few so you would know what programs we are talking about.

Presently, as far as we know, there is very little impact upon our communities for the space program. There is very little impact upon our communities from the TRIDENT Missle Program, the B-1 program and probably even the Alaskan Pipeline program.

If these programs which are costing billions of dollars every year really have very little impact upon our communities, I would say we are against them.

I am requesting, therefore, that you either make some cuts in those areas orthat you make some other mechanism available that would bring us closer into the American mainstream so that we can enjoy the benefits of it.

Thank you.

SECRETARY DENT: Thank you.

Mr. Gaudion.

MR. GAUDION: I want to address myself specifically to your question. I think I sensed a clear consensusthat we do have to shift -- at least for a two-to-three-year-period -- from a consumption economy to one that concentrates on our productive abilities inorder to avoid trouble down the line.

SECRETARY DENT: Thank you.

Are there any other comments?

Mr. Wingerter.

MR. WINGERTER: The cost of producing a productive job of something having tangible value in this country is $26,000 investments on the job. That is producing somethingthat sustains the economy, it is not making work, taking in each other's laundry which is just make-work projects and not solving the problem.

SECRETARY DENT: Mr. McSwiney.

MR. McSWINEY: I think it is clear to all in industry and certainly most people in government that rapid depreciation, accelerated depreciation increased in investment and tax credit is a good investment for the government in thesense that you have a capital asset in a short period of time that it costs todefer it.

I am not sure that is clear tothe public and I think as we examine these issues that this is an area that ifwe are going to get support and the prompt actionthat isneeded inthis area that needs to be made clear.

It does nottake too much of a mathemetician to understand and work this out.

SECRETARY DENT: Thank you.

Mr. Haas.

MR. HAAS: Addressing your question, I think Mr. Jones is not the only one whohas a youngster who is smart enough to say that he is going to spend his money now because it is not going to be worth so much inthe future.

Maybe that is an exaggeration of a strong statement. There is a great push on and all of us are somewhat to blame ifwe are market oriented in promoting products or trips orwhatever because they are cheaper today than they will be tomorrow.

As a market oriented individual, I cannot argue with that in a free economy, but I would like to reemphasize the point I made in my remarks that I think in addition to production we want to promote savings a ndsome suggestions have been made and we alsowant to try todevelop as many programs and devices as possible to conserve resources.

I tried to suggest a couple but there must be many, many more which would not be in conflict with other matters that we have discussed.

SECRETARY DENT: Thank you.

Mr. Smith.

MR. SMITH: Number five. I would like to recommend nipping inthe bud one new expenditure being undertaken by government that will also add costs in the private sector. I am talking about this expensive bylines reporting scheme being initiated by the FTC.

Now I understand that it has not been appropriated for by the Congress, that the funds are being borrowed from other accounts with the expectation that laterthey can get the appropriation out of Congress. It is not only an expenditure of government, even though it is a relatively small one. This is an example of how things burgeon and it adds greatly tothe expenses of the private sectorand will give information a very doubtful value.

SECRETARY DENT: Thank you.

Dr. Russell Peterson, head of the Council on Environmental Quality, has been with us listening to all of this. His agency has an influence on inflation.

I wonder if you would care to address the group.

MR. PETERSON: Thank you, Mr. Secretary.

I would like very much to do so.

First of all, much was said this morning be environmental regulations and certainly they have caused industrial leaders many headaches and costs millions of dollars.

They also should be reviewed frequently for their costs and benefits and I am sure that some changes over time will be in order.

But to contend that investment in facilities to combat pollution is not productive and that it contributes in any significant way to our high rate of inflation is dead wrong in my opinion.

I think you will all agree that our health is a tangible value and we place well ahead of the value of many material things which we acquire.

An opinion poll showed that our people increasingly weigh the value of our health and of environmental quality programs. So, statements which refer to expenditures made for environmental purposes as non-productive demonstrate in my opinion a basic confusion between a common terminology and reality.

Pollution control expenditures certainly are not responsible for our current problems of inflation. Our most recent analysis of the impact upon environmental programs, all of them, on the economy, indicate that these programs add at most one-half of one percent to our current rate of inflation.

When you add up all of the programs which have been implemented as a result of the federal legislation in water and air pollution control, it comes this year to seven tenths of one percent of our GNP.

There is one program which we strongly recommend be carried out to combat inflation and other serious economic problems we have and this is the one referred to here this morning particularly by Mr. Haas and that is to have an all-out conservation effort, sort of a war on waste.

When you stop wasting one unit of energy, you not only reduce the demand but you increase the supply simultaneously, thus acting on both of the sides of the supply-demand equation with one action.

I am sure that you industrial leaders will agree that there is tremendous opportunity for reducing throughout whole economy, not only in industry but the commercial establishments, in government and in all of our homes.

When you stop waste or reduce the demand you also reduce the need to import energy and thus help to work on the balance of payments problem.

You also reduce pollution and thereby reduce the cost of medical care. You reduce the need for limited capital to build additional energy facilities.

But a national effort to educate people, teach people how to do this by itself would not be enough. Some people will say you are not going to get on just with jawboning but if you coupled that with a disincentive like a btu test which would apply across all forms of energy, say, 20 cents per billion btu that would bring in $12 billion, which, when added to a cost-cutting activity, would help to build a budget surplus and also provide a few billion dollars for the public service jobs that most people are talking about that will be needed and also to

help soften the impact of the btu tax on the lower income people.

If we launched this as a national effort, got the President, for example, to lead it, to sell us all on adopting a conservation ethic throughout our community, we couldteach people how to recoup the btu tax.

Industry could be taught and encouraged to recoup, as industry is doing today with major conservation efforts.

People at home could be taught how to do it. This could become a way of life which I think would catch on and help us to build some other values as well into our society.

SECRETARY DENT: Thank you, Russ.

Congresswoman Griffiths.

MRS. GRIFFITHS: I hope you are supporting my recommendation that gives recycled materials the same tax rate as virgin materials.

SECRETARY DENT: I hope he is supporting but not lobbying. That is a violationofthe federal law.

One ofthethings that came through loud and clear at these meetings is the need for additional capital. I would like to raise two questions: One, judgments as to theamount ofcapital required inthe years ahead andsecondly, two suggestions have been made, two categories, one ofwhich isthe increased incentives intheway of revision of depreciation, capital investment credit and the other is by way of savings incentives for individuals.

Now, differentiating between the capital recovery and the personal savings incentives, how does the group feel aboutwhich ofthose should receive preference if you take them in stages?

Mr. Thorelli.

MR. THORELLI: Mr. Secretary, I would put the premium on the notion of liberating some individual savings or the interest thereon from taxation because you get really a two-way effect. You both reduce consumption, that is effective demand, and you create additional investment capital.

SECRETARY DENT: Thank you, Dr. Thorelli.

Mr. Burrell.

MR. BURRELL: I would like to support that theory because it seems to me that if we could find a way to put money into savings and loan institutions and somehow treat the savings in somewhat the same way that we treat either government bonds so that the persons who invested the money in savings and loans would not have to pay tax or regressive tax on those monies it would certainly beef up the housing market since commercial banks are very reluctant to go into 10, 15 and 20-year mortgages, not to mention the fact that they are reluctant -- they just won't do it, they cannot do it, they see no need to do it when all of us are around trying to borrow money on the short-term at much higher interest rates.

So that theory is gaining support, I think, across the country and I hope that one of the recommendations that could come out of here would be just that sort of a recommendation.

SECRETARY DENT: Thank you, Mr. Burrell.

Mr. Miller.

MR. MILLER: Mr. Secretary, if you consider the need for additional capital in manufacturing and the general corporate level as contrasted with, let's say, the housing, the need now is for basically an equity capital market because all American corporate entities have increased their debts to about a maximum amount and maybe more than is prudent.

But, if you have interest rates, and the prime rate is at 12 percent, a common stock can really not compete with that because you have to have a substantial premium to justify the risk of moving out of a fixed debt obligation into an equity.

I think you have to consider that it is very unlikely that an equity market adequate to the needs of American business will develop as long as interest rates are at their present level and that is a serious bar to the expansion plans of all corporations because very few of us now are willing to go much further with fixed goods on a debt basis.

SECRETARY DENT: Mr. Gerstacker.

MR. GERSTACKER: I think it is a mistake to attempt to say that encouraging savings by individuals should be argued against getting increased capital investment. They are both necessary.

I think most people have said they were both necessary. I personally think that whatever changes in taxes are made should not increase or decrease the total tax and that we should balance things with temporary spurs to investment like an increase in the investment tax credit but only for things started perhaps in the next six to twelve months, balance that by some increase in regular corporate taxes and if we do something for the saver or other parts of the personal income tax, we should balance that with an increase in the income tax so we come out even.

SECRETARY DENT: Thank you, Mr. Gerstacker.

MR. GERSTENBERG: This relates perhaps to this savings thing we have been discussing. It is my impression that if a company like ours were to declare a dividend completely in stocks, there would be no tax on the individual receiving that.

Now, can't consideration be given to relieving the tax on those dividends to the extent that the recipient would reinvest that dividend in the stock of the company?

Our experience is limited. We started a dividend reinvestment plan in GM here about two years ago and it was interesting to us that those that have taken advantage of it, and about eight percent of our shareholders have, are the smaller shareholders.

So, there is a real interest on the part of the shareholder with just a few shares in a plan such as this. I would think that if a forgiveness of tax for dividend reinvested in the stock of a company would certainly help companies to raise some equity capital. How important that would be, I have no way of knowing what it would do to the revenues.

It is certainly worth exploring in this very area that is so critical.

MR. GERSTACKER: Let me add on to that. That was done in Brazil in the 1960's. Brazil is one ofthe few countries which has reduced inflation and Brazil in the '60s did say that individuals who invested part of their income in certain industries likeutilities would not be taxed onthat share of theirincome.

That hasbeen done.

SECRETARY DENT: Thank you.

MR. CONABLE: Mr. Secretary, it is interesting that we keep coming up with new ideas for new tax preferences. It seems to be part and parcel ofthe American way of life now to think that the good life is somehow tied tosomeway of getting a special tax deal and, unfortunately, thethings that are being suggested I want to point out you probably would putthe brokers out of business with what you are talking about, reinvestment tax-free, and I am sure that it would be nice for the savings and loan people to have a tax exemption on savings.

It would, however, raise a question of whether you should not also give it tothe commercial banks who might invest that money at a considerably higher rate than people who hadinvested in mortgages would.

So, you havetheproblem of neutrality always in these things and you wind up having to equate a tax preference given herewith a tax preference over here so that you don't have a distortion in the flow of capital that results in some sort of in inequity and you wind up as I say chasing yourself around thebarn and eventually you will wind up with a value added tax instead of an income tax simply because it is impossible to finance your government with an income tax that becomes so anemic because of hemorrhaging so often.

I express this only as a Member ofthe Ways and Means Committee who is constantly frustrated by the splendid ideas that people come up with for tax preferences.

MR. BLACKBURN: I feel like it is proper to comment.

Maybe what is inherent in the sentiment expressed is that if we can just get government out of our pocketbooks in general itwould be a good thing.

MR. WOOD: It seems to me that the interest in a tax exemption for savings has surfaced because ofthe problem of loanable funds available to the housing industry.

Now I think the economists will tell us that we still have in excess of seven percent of disposable personal income coming into savings. What you have had is disintermediation because of inflation and the policies ofthe Fed we are paying such high rates in other forms of savings that the savings and loan industry which primarily supports mortgages is losing money.

We have the new floating notes. We have Treasury Bills that are available tosavers at a much higher interest rate. What I am saying is -- and I agree with Congressman Conable that we have got inflation to tackle first off -- that as regards high interest rates, the people are still saving but the savings are going into different directions.

So, let's tackle inflation, high interest rates and perhaps we don't have to worry about the exemption for the first thousand dollars or $700 of interest on savings.

SECRETARY DENT: Thank you, Mr. Wood.

Mr. McSwiney.

MR. McSWINEY: Just in supplementing the comments that have just been made and that were well made here earlier this morning, in some businesses today which are working capital intensive even at an adequate return in those businesses is moret han -- I won't say morethan eaten up but just to maintain the inventories and the receivables and thestatus quo in those businesses.

Congressman Conable and the Secretary raised the question of how much is enough in capital. In some cases it is almost an infinite amount if those businesses are going to grow.

SECRETARY DENT: Thank you, Mr. McSwiney.

Mr. Wingerter.

MR. WINGERTER: I would like to give an illustration of the inadequacy of depreciation flow and the investment tax credit.

My company has a net worth of $360 million, approximately. It has $540 million invested in fixed assets that are productive assets. If as best I could do my homework as to the inroads of inflation integrating into the productivity of new machinery to replace the productive capacity that becomes obsolete, there was a 7-1/2 percent loss on those $540 million assets last year. That represents about $38 million---ten and a half percent of net worth that really was not profit.

SECRETARY DENT: Thank you.

Dr. Lazer.

DR. LAZER: The comment was made that in essence the consumer is still saving. However, what concerns me is the fact that there is evidence that when inflation is deemed to be high on the part of the consumer, the consumer then starts to act to acquire materials rather than to save so you have the flow from money to goods.

This in turn intensifies the inflationary effect and I think that unless we act realistically and through some means of extending exemptions for consumers that they well take their capital out of the banks and we will suffer as was mentioned in two ways.

I believe that the inflationary impact is such in the consumer's mind at the present that they deem it is high inflation and will continue for the next few quarters. I think we would be making an error despite what the good representatives said if we didn't take action in this direction.

SECRETARY DENT: Mr. Lewis.

MR. LEWIS: I want to address myself to Mr. Peterson's comments but I could not fail to note that the tax preference arrangements of the various items Mrs. Griffiths mentioned seemed to be a special hallowed ground already in being that is not taxable. There is a reasonable source of taxation if you are looking for one on the Ways and Means Committee.

One of our problems, Mr. Peterson kind of outlined, he said that he does not believe that all of the environmental controls imposed on industry are non-productive. Of course, they are not---in either human terms or economic terms, totally.

I was interested -- three people, including myself, used the word "zealous" as regards implementation. I think a better word would have been "overzealous" or "zealous to the fifth power".

We all, I think, would look at where we are today in the environment as it compares to a decade ago and we would be glad that many of these things were done. I am confident also that when the bills were brought out and the regulations were set up and members of industry testified before the Congress before these bills came up that the enormous cost of these was brushed aside as being meaningless and truly non-productive comments.

I would like to say this to you: Not only are we plagued with overzealous federal regulations, which many industries are able to successfully pass with a polluting product, whether it is in the air or the water, that they are then besieged by more stringent and brand new and as-yet unsubstantiated requirements from the state or local levels usually in series and to say that these are not taking away capital is very, very wrong because, as has been mentioned over and over again, each company is only able to raise so much money to put into new capital facilities.

If a large percentage ofthis money is going into things that have nothing to do with reducing the cost of the products, providing more jobs, providing better products andthe company cannotafford to put thattype of facility in because they can't get themoney for the reasons we have already talked about, or it is imprudent to borrow that amount or whatever,this is totally destructive to the growth of American industry and we need to get the environmental zealots, if you will, to zealotize a little bit for a few years and recognize and stand firm for what they have accomplished and allow the industry to catch up andstill maintain thestandards we have today.

SECRETARY DENT: Thank you, Mr. Lewis.

Mr. Jaicks.

MR. JAICKS: I would like to add towhat Mr. Lewis has said with reference to Mr. Peterson's comments.

It seems to me there is another dimension as to the inflationary aspect of pollutioncontrol as it has been capitalized and invested in up to date and that isthe area which I think certainly is inflationary and deals also with the zealousness of the timetables and relates to shortages which I think we all agree are inflationary in their basic impact.

A major material commodity which we buy and which enters the manufacture of steel products is zinc. To give a specific case, roughly half ofthe zinc smelters in the United States have been shut down because ofthe timetables in air pollution. Thenet result is that zinc prices have just skyrocketed. There are even some cases where availability is a serious problem.

As tothe conservation point, it seems to me that a couple ofthings I have in mind are significant. In this case they apply not to timetables but rather to standards. There is a problem inthe air pollution area as it impacts the steel industry that relates to a term called fugitive dust.

This isthe dust that is not directly coming out of a process but is emitted from a factory area because of the combination of minor pollutant sources combining to go out the monitor of a building.

A number of specific cases that the industry in general has felt ties to the fact that inthe abatement of fugitive dust, a very difficult thing to do, which in most cases requires electrical energy, for this relatively small total amount of dust, the electrical energy and the air pollution evolved in the producing of it turns out to be a greater amount of pollution than the control of the fugitive dust.

Another factor related to electrical energy isthat we in our industry have recognized the energy requirements to meet existing standards.

We have c alculated that something like 20 percent ofthe entire energy now used in the steel industry, an energy intensive industry, would be required to control all of those pollutant areas in both air and w ater.

Of course, we are all for protecting the health andwell being ofthe citizenry in this country, but it seems to me that the extent towhich standards are excessive we have a problem that relates directly towhat we are talking about.

CONGRESSMAN SHUSTER: Mr. Secretary, this relates to a different kind of pollution and also to what I believe to be a very significant aspect of inflation from a very long-term point of view.

I would pose as a question to this group, because I have not heard it mentioned here today. Now, is not a deceleration of the world population growth a very important factor to which to address ourselves when we talk about inflation in the long-run?

SECRETARY DENT: Yes. We will let that question sink in, and I would like to raise another one. We can discuss them together.

We have heard a good bit of discussion about the need for incentives to increase industrial productive capacity. We have not had much discussion about the need to augment the supply of raw materials. There was mention earlier of the possibility of a commission on raw material supplies. Is there a consensus in favor of this? Are you fearful that it might infringe on the free market? Do we need a revision increase or decrease in production incentives on raw materials?

What kind of bottlenecks either international trade-wise or distribution-wise are involved in these raw materials from your experience?

MR. FORD: I brought up that point,Mr. Secretary, and I think it is the subject that is very difficult to answer in a short period of time here this afternoon.

The reason that I felt that a commission such as a presidential commission was necessary is to give this kind of a long-rnage look and these raw materials shortages are prevalent not only in the United States but throughout the rest of the world, so this is a world-wide problem and many of these raw materials are not available in any large quantities in the United States. So, we have to look at world prices rather than our own prices and costs here in the United States. This is a very difficult problem to find an answer to, but, in my opinion, it at least deserves a great deal of study.

SECRETARY DENT: Thank you, Mr. Ford.

Are there other comments?

MR. IRWIN MILLER: Mr. Ford mentioned earlier having a commission comparable to the Paley Commission. The Paley Commission, I believe, in 1956 or 1958 laid out the energy problem in about as good dimensions as you could do today, and we let 14 to 16 years go by

without doing anything about it. If we have the same amount of time in raw materials but would act before the crisis came upon us as we did not do in energy, such a commission could be very fruitful. Our energy problem today would be substantially better in hand had we been willing to act on the Paley Commission recommendations before the times became critical,and I think what Mr. Ford is saying is we now have that opportunity on raw materials, but we have to have the commitment in government to act before it becomes critical.

SECRETARY DENT: Were you a member of the Paley Commission?

MR. MILLER: No, but I recently reread its report and it will make your heart bleed to see that 16 years ago it was laid out and we could have gotten into motion.

SECRETARY DENT: Thank you.

MR. BROWN: In listening to the panel's discussion both here and in Pittsburgh, it seems to me that certain things kind of come in focus and that is if we look at the problem of Federal regulation, especially in the environmental and safety area, and some others, you find that it has its greatest impact, and the focal points are by and large energy production facilities, and in the area of critical materials. In the area of energy production, we think of spillage, water pollution, fall out, air pollution, etc. Under critical materials, we find that these things especially affect environmental boundaries--the zinc example that the gentleman came up with.

So, shouldn't there be one conclusion we reach from this from these different regulations if we are going to improve the quality of life that the gentleman suggested that these are specific areas on which we should focus special tax treatment as the highest priority, because I think they are consistent and I think you will agree, Mr. Secretary, throughout the course of the Pittsburgh meeting and this meeting, these things have really constantly kind of precipitated to the top. When we talk about regs we talk about these two basic areas and probably that is what we should have precipitated to the top from the standpoint of tax treatment.

MR. CONABLE: That is why we give five-year write-off for pollution facilities for capital investment.

MR. RICCARDO: The comment about tax incentives in this area I think are worthy to be looked at depending upon the industry but I think the preponderance of opinion expressed here today is not so much -- industry needs help in this area as much as it needs reasonableness. I don't think anyone in industry who has any common sense is not for removing his own particular products or plants from this problem because you can't live with it from many points of view.

The problem we are all faced with is the amount of regulation and the necessity for that particular level of regulation. I think it is in this area that it would be most productive for government to review what it has done. I think the moratorium that was talked about this morning in certain areas in effect asks for that kind of a review.

The question is not that we should not improve our products or improve our plants or remove them from these problems. The question is what does it take to do that. I think therein lies the problem as to what level is needed.

CONGRESSMAN BROWN: Mr. Riccardo, I am not suggesting that we continue over-zealous enforcement of regulations and give over-zealous tax reliefs. I think reasonableness is important in both these areas but I think we do see the impact of regulations particularly in these areas. These are the areas that I think are the greatest contributing factors to the inflation we have.

MR. JAICKS: Congressman Conable, could you clarify for me your last comment about the nature of the Federal tax relief in this area? If my information is correct, the five-year write-off applied to new facilities after the law was passed and also had a limitation on its length.

MR. CONABLE: Yes, and the tax reform bill which is being worked on would extend that. You are right, it is a limited preference. The point that we understood that this was a special problem of capital recapture -- because this expenditure did not relate to productivity directly and, therefore, we tried to give added incentives for people to make this investment, realizing that the stick was there as well as the carrot.

It has had some special attention. That is the only point I was trying to make.

MR. JAICKS: I would review the plea as you look at that you review it with hindsight. In areas such as in the steel business, the requirements to improve and apply modern control devices to older facilities are in fact much more difficult and are much more expensive problems than to apply them to new ones.

CONGRESSMAN BROWN: I would only ask Mr. Conable if he is now coming up with his tax reform measure to in some way compensate for the regulatory matters such as the coal mine safety bill, strip mining bill -- all these things.

SECRETARY DENT: I suggest in honor of the Detroit Tigers that we take a seventh inning break stretch.

(Brief recess.)

SECRETARY DENT: Ladies and gentlemen, we are into the last 55 minutes. I just think the dialogue has been most constructive, and I think that it points up the utility of these meetings to where the private sector interested in incentives then is confronted with a congressional problem of where does it come from. Also, we should recognize that very few of these spending programs were the unique idea of a member of Congress. They stem from the American

people and we have to dampen the demands placed upon our government and society if we are going to hold these budgets down. We look to the Congress as our instrument but we are also supporters of them in our communities, associate with our neighbors and fellow workers, and it is an opportunity to explore the fact that maybe we are demanding more than is available from the system and we have to temper our demands in order to fit the capacity of the times.

I think the discussion has been very constructive and, if nothing else, we have all matured our thinking along these lines. The question had been raised earlier, also, about the desirability of considering a national planning commission or a planning agency or organization to try to give some centralized thought. Does this have any appeal?

MR. FORD: It has great appeal to me, Mr. Secretary, and I fully support it. I think it is one of the great things lacking in the Federal Government. I would hope it would even be at cabinet level because I think it is that important. I have talked to Paul McCracken about it in his new job. I talked to him yesterday on this because I think it is one of the great things that is lacking in our total planning situation in the United States.

SECRETARY DENT: You are talking about planning not just the activities of the government as Office of Management and Budget but rather an overview of the entire economy.

MR. BROWN: An overview and in the area of raw materials and plants and industry in the United States and the entire economic situation apart from what the CEB does.

MR. GERSTENBERG: I am going back to raw materials. We certainly need to do some planning and thinking about this. Despite any amount of energy savings, despite any actions by our State Department on the political scene, we still have a dependence on importation of things like oil, bauxite and other minerals.

We have talked about the U.S. becoming self-sufficient. I personally think we should make every effort to become as self-sufficient as possible. This brings problems

in government and government expenditure. If you take something like the oil from shale of which we have great potential in our country, the cost of producing it from shale is always going to be substantially higher than producing it in the Arab countries from regular oil wells.

So, there is a great danger that private industry doing this will find itself then being undercut at some future date greatly and finding an uneconomic investment.

At that point, government considers import barriers or whatever to protect the domestic industry. What this does then is to make our cost of manufacture higher in our country than it will be in some foreign countries which was the situation not too long ago when Japan and Europe had cheaper than oil.

This takes you to the next step of government self-sufficiency in the way of oil, in the way of local bauxite, other minerals, and then perhaps putting that into standby for the emergency whether it be military or political. That, again, gets into the realm of more government expenditures which will probably bring more inflation.

So, I do think study of the raw material long-range problems are most important, and we should stop kidding ourselves and face up to some of the realities of whether we are going to be competitive or not.

SECRETARY DENT: Thank you.

DR. THORELLI: Mr. Secretary, we just had a stretch break but I will try to avoid stretching my remarks.

SECRETARY DENT: Thank you.

DR. THORELLI: The first point I wanted to take up has to do with this materials issue. I am sorry to have to take issue with Mr. Gerstenberg. I think we are growing with increasing interdependence between nations whether we particularly like it or not. I think it is reactionary to strive for self-sufficiency in all areas of raw materials. That does not mean we could not have Federal research and development subsidies or we could not have Federal tax incentives to develop new types of energy or raw materials but to help

for self-sufficiency or even make that an overall national goal, I think, would be uneconomical and inflationary both.

Besides, we should not for a moment forget, I think, that the United States is the home of two-thirds or three-fourths of the multi-national corporations in the world and, hence, has some extremely volatile and sensitive interests in liberal international trade.

The second point has to do with energy. I said this morning I was trying to give a consumer point of view of some of these matters. Well, one might wonder how can one tolerate these fantastic increases in gasoline prices and fuel oil prices from the consumer's point of view. I think if we get the right kind of educational campaign going, Mr. Chairman, consumers will be able to manfully take these higher prices if they are convinced that it is for a worthwhile purpose such as for conserving energy, and this is the clincher, if it is to get us an excess profits tax on windfall type profits in the oil companies with which to develop new sources of energy.

On that point, I would like to say we want to promote competition, and I would be anxious to see that this excess profits tax is applied in such a way that it is non-oil companies that are doing the development work on competing forms of energy.

Some of the excess profits might also go to alleviate hardship cases such as the little old woman in her cottage in New England who can't pay her fuel oil bill, etcetera.

MR. BURRELL: Mr. Secretary, there seems to be an assumption that the United States will have to go as a supplicant to any new source of raw materials. I think that is a pretty dire prediction. I think that we, as Americans, must seek new markets for our products and new sources of needed raw materials at the same time. That being true, we will find ourselves turning more and more to the less developed areas of Latin America, Africa, and Asia. Therefore, it seems to me it would be in our own national interest to contribute to the further development of those areas as we know both of those things that I refer to.

SECRETARY DENT: Thank you.

I wonder if I might raise one question that you can be thinking about and then we will take Mr. Jones and Mr. Miller.

During the discussion there seemed to be consensus that the government, if we are facing unemployment, should become the employer of last resort.

We also had many suggestions about productivity. Is there any way that we could combine these two in order to improve productivity in our society if we do have to become the employer of last resort?

Mr. Jones?

MR. JONES: Mr. Chairman, I just want to make a comment on the commission you just talked about. It bothers me to some extent that the commission is talking about managing things in addition to raw materials.

It seems to me that not enough emphasis is being placed on conservation for one thing and, secondly, not enough emphasis is being placed on efficiency.

I am rather concerned, probably because of my background as a physicist, if you talk about conservation and so forth if we are ont playing games with ourselves. Why don't we, for instance, worry about increasing efficiency. I suspect sometimes we have said we don't have to worry about that because we can continue to pass that on to the consumer, and maybe we might really want to stop and look at some points and see if maybe in terms of our energy needs and our raw material needs that we might not build things to last and make them more efficient and cut back on the needs we are going to have long term.

MR. MILLER: Mr. Secretary, I think there is a sense of frustration in the whole meeting and I share it, and that is almost anything proposed has possible bad effects somewhere else. The lesson that comes out of this is just as our own businesses are a system and each component interacts on all the other systems, so the nation is a system. We are now talking about systems' interactions and we have no method whatsoever of predicting what those are going to be.

Therefore, when we take any action, we are flying blind.

In respect to the planning function, it really means taking the rest of the century to build a sophisticated model of the whole society so that you can ask questions as to what the system's interactions of any course you may propose may be. Given the length of time in which it takes to compile even a primitive model of a business, I would think it would take the rest of the century to do that on the society and here, again, we ought to start now. I think that is the heart of all the frustration that we see here now.

We cannot predict. We are making individual proposals without any real assurance as to what the system's interactions will be and we know that most of them will be bad.

SECRETARY DENT: Thank you, Mr. Miller.

I do believe, however, we are getting this interplay of ideas. It is preliminary to moving forward to another two-day meeting. It will just begin to mature by then and ultimately we will have to better analyze their interrelationships as you have suggested. It is far better that we have made a start than not to have started at all.

DR. LAZER: I would heartily support what Mr. Miller has said. I think we have to start developing the planning stage and gathering the data. I don't think anyone saw the impact of the Russian wheat deal on the American economy. He is absolutely right we have to choose from amongst a number of undesirable alternatives if we are going to try to stem inflation in the short-run and somehow try to understand our system better in the long run.

The economists have been fine-tuning this economy now for well over a decade and I am not too sure the economic models have worked.

I have often wondered in the back of my mind while we have a council of economic advisors. Why is it not a council of economic, business and union advisors. Certainly, it is a system with interrelated parts. If we look at all of the proposals today, what happens in one sector affects another. Somehow we are going to have to break that cycle now.

There will be flak. There will be an uneven distribution of the burden however you look at it, whether it is on business, the consumer, labor, the government, but everybody must share some of it and let's take a longer range look at it and try to develop the interactions so we could do the cost-benefit analysis whenever we try to undertake a program.

SECRETARY DENT: Mr. Morgens.

MR. MORGENS: I would like to raise just a note of caution about this national planning suggestion of Mr. Ford.

I don't think there is any body of human knowledge or human mind that can plan for an economy as complex as ours. I would just rather trust the many individual decisions of the various elements in the economy than I would any group of planners that I have yet run into. I think with planning comes a tendency to enforce a plan and that gets to be more and more constrictive on what is, after all, a very vital society right now, unplanned as it may be by the so-called superior minds that can do this.

SECRETARY DENT: Thank you, Mr. Morgens.

Are there any other comments?

To get back to this question of productivity, there have been suggestions of productivity councils, commissions. I have been interested in this for quite a substantial amount of time. One of the big problems we run up against is the question of whether it should be Federal, funded by the government, in which case it has the encumbrances of bureaucracies and the restraints of conflicting interests. Yet, on the other hand, we have been unable to find in the private sector a moving force which says we ought to take it and make a little contribution from a number of companies and have the private sector on it, develop ideas that can go back both to the public and to the government.

I wonder what the sense about this question would be.

MR. BURRELL: I agree with you, Mr. Secretary, on the fact that we have not been able to find the money in the private sector to do that. Neither have we been able to find it in the Congress, the present company excluded, of course, I am sure they all voted for the act when it came before them.

But we have a National Commission on Productivity which I thought was comprised of all elements and all segments of the economy, including business, government and labor.

The Congress, in reading the record, asked the question of what the hell do you do? For that reason, we don't think you ought to have but X number of dollars. We started asking for $10 million, went to the Committee and ended up with a request for $5 million and someone decided it should be $2.5 million and that is what we got.

If it is as large a problem as we say it is here, I don't see how in the world the Congress or anyone else could say that it does not need the funds with which to operate. I think in the mix of the people, you will find the kind of response that we are trying to get as an answer to the crushing problem.

MR. GERSTENBERG: There may be some particular group that could bring something to bear on a national basis for the whole private economy on productivity. I don't know. But I would have to say that there is no one around here who is any more interested in improving the efficiency of our business and the productivity of our operations than we who have the responsibility for running it.

If we are not able to do it, the discipline of the market will throw us out of these jobs very, very quickly and I think you can trust that to the competitive economy of this country to do the best job.

SECRETARY DENT: Thank you.

CONGRESSMAN BLACKBURN: I think there is one very ligitimate area that a Federal Commission on Productivity could serve a purpose and that is in investigating the efficiency of local governments.

Someone observed earlier thatthe federal establishment is pretty much the same size today as it was in the late '40's, yet local governments have grown up from $3 million employees to $11 million employees. I suspect that there is a lot of room for lost motion and nepotism in local governments probably to a greater degree than in the Federal government. That would be a very valid area for a commission to look into.

CONGRESSMAN SCHUSTER: It seems to me perhaps another area of legitimate interest would be not dealing so much with heads of industry who are interested in productivity but in serving an educational function in our country to educate the other elements of our society as to the enormous importance of productivity.

In fact, I would go beyond that and raise the question: Don't we need really from a long-run point of view to educate our children in high school so that by the time they are a high school graduate they understand something about economics.

My kids know more about music and where Omaha, Nebraska is located than they do about the fundamentals of economics. It seems to me this is terribly important.

The Office of Education and HEW should look into this to change the curriculum fundamentally in our nation's schools.

SECRETARY DENT: He brought up an interesting point in his Ohio speech, the President charged the Secretaries of Labor, Commerce and HEW to present how the workaday life and academic might be more closely attuned. That is in the works and any ideas are solicited.

CONGRESSMAN BROWN: On the question of a public or private oriented Commission on Productivity, I think one of the problems of a federally-run Commission on Productivity and Mr. Burrell might agree, is that if you are really going to do a hard job and point out some of the areas that are almost sacrosanct today within labor contracts and

what have you, if you did that kind of a job and came to a political body, that Commission very shortly would go out of existence, because that Commission is not going to say this regulatory function under any kind of a cost benefit study looking at productivity just should not be there, and this labor proviso and this other should nct be there.

You cannot put that function in a political body. If you do, you are getting the kind of watered down reports that will give lip service to the qeustion of productivity but the Commission is not going to come into hard confrontation with the real problem.

CONGRESSMAN FORD: Some mention was made here of the existing Federal Commission on Productivity. I have only been down there for ten years and I did not know we had one until we were asked to vote. The only thing that anybody could tell me was that they were responsible for a billboard right outside of Washington that said about more productivity.

I think every member of the House must have seen that billboard because we finally found out who was responsible for putting up a billboard that said about more productivity.

I think that I voted against it when it was up. It was a caveat I would throw to Mr. Ford and the others suggesting any kind of commission. I think the idea is great but it had better have some clout and the dignity of the President of the United States behind it and the Secretary and others so that it does not become a name that sounds like we are doing something at a federal level and therefore becomes an excuse for not doing anything at the federal level.

As a matter of fact, it is well recognized by people that one of the ways we duck responsibilities in the Congress is to create a new committee to study it. Every bad administration tends to do this from time to time. It is one of the weeknesses of government. If you start off to get one of these and you are really interested in it, be sure that when it is started, it has the dignity of the President's full support and the leadership in the Congress

and the Cabinet, because other wise it will become a title and it will become an excuse for other agencies of the federal government not to exert their bust effort and not to be held responsible.

As a matter of fact, we do hold a number of agencies of the federal government responsible and the agencies themselves in various ways hold you responsible for efficiency which is a part of the problem of productivity.

But I father listening today that there would be a difference of opinion as to what efficiency means from the conservationist point of view. The most efficient way to do something is to produce the least amount of pollution.

From the manufacturer's point of view, answering to his Board of Directors and to his stockholders, the most efficient way is that way which will produce the product for the last course and in the most efficient way from that standpoint.

These things have to be weighed together. Perhaps for that reason some kind of governmental advice or counsel will be necessary if not regulation. I tend to agree when a committee recommends something a committee in our body will come up with legislation to force you to do something with regard to that recommendation.

The most important thing is that we not have a fancy sounding group of people who mill around for two years and produce a report that gets filed away and does nothing because that will fake out a lot of good people on the university campuses and in industry and in government now who are in fact working on some segment that they have some expertise in what to do about productivity.

SECRETARY DENT: Mr. Burrell.

MR. BURRELL: Congressman Ford, we who sit on the Productivity Commission thought that we had what we needed to proceed to do the job. There is an article I have seen here at the table in this weeks Business Week that talks about the fact the reason it has not been able to operate it was always in fear of not having the funds to get through the next fiscal year.

I think you could assume the only way it would work is that you would have business, government and labor sitting together. You can't do it if only the business sector funds the Productivity Commission, or you could not do it if only labor, and at no time during the meeting we had over acouple years period did we have everybody present.

Sometimes business was mad, sometimes labor was mad depending upon the subject matter, but certainly the mix of people is what is going to be required.

Government has the responsibility in this country to move to ease social pressures and other kinds of sectors when the private sector fails to act. We have not been able to find anyone selse interested in funding it other than government who has the most to gain.

Today we have talked about productivity all day long. Everybody talks about productivity. It seems to be like the Loch Ness Monster. Everybody talks about it, but has never seen it or knows what it is. Yet, it is right here on the table today. We are still fighting the battle of how you fund a Commission on Productivity.

SECRETARY DENT: Thank you, Mr. Fisher. Did you have your hand up.

MR. S. FISHER: Mr. Burrell has pretty well made my comment. Congressman Ford says he has been there and has not heard of it. It is only three years old. Maybe this is one of the reasons. It has a one-year life. It is never been funded beyond the fiscal year.

Mr. Dunlop heads it, who has been here. It has had three directors in the last twelve months and that is Congress's fault. Given it some teeth and the beef you say you wish it had because it is your creature.

SECRETARY DENT: Am I to observe that it was a Senator that struck the appropriations, not a member of the House.

MR. BURRELL: I said they were all excluded, Mr. Secretary.

MR. GRIFFIN: I alluded to this morning that we have to teach people what makes the system tick because productivity means different things to different people. I think to some extent it means a speed-up on the assembly line, to others, less time on the coffee break. It is an attitudinal matter.

I think we have taken it for granted that things just come automatically without a price tag attached and because of the unique situation that we have unfortunately, double digit inflation which is a catching phrase as well as a threat that we have an opportunity in economic education that we have never had before.

In St. Louis we are trying to do something on this not only on the industrial business level, but with the universities because after a time it is pretty hard to change someone's attitude.

SECRETARY DENT: Thank you.

CONGRESSMAN BROWN: I just want to express my appreciation for this meeting. The gentleman at the end, Mr. Bechtel, totally agrees with this so it can be done. Maybe your situation just has to get as bad as it was in the construction industry before you decide you have to sit down and talk.

I think it can be done. I don't think it has to be purely the private sector, I don't think it has to be purely the government sector but it has to have participants from all of these sectors as Mr. Burrel said. If it is in your own best interests, each segment of this aspect of the economy, then you are going to have the kind of Commission on Productivity, negotiation productivity that you had from CISC.

SECRETARY DENT: Thank you. Mr. Bechtel.

MR. BECHTEL: If my memory serves me right, the Productivity Commission was established shortly before the

first freeze and Phase II was put into effect and I think that completely discombobulated everything in Washington and in the contry so much that it really did not get the follow-through before the control program went into effect.

I would like to also suggest that in talking about productivity that we recognize the complexity and the multi-faceted nature of productivity. There are some things that have to be dealt with on a generalized national basis, there are some things that you cannot go beyond the industry.

So it is a little bit like some of these other problems -- we are looking for one simple solution. You can have one little committee and solve the whole problem and productivity cannot be dealt with that way.
I think there can be a case for continuing the productivity Dr. Dunlop is now examining this on the Commission and he has asked us to give suggestions.

I think part ofthe answer is going to be it is going to take more than one Commission, it is going to take some subgroups. It is very complicated.

SECRETARY DENT: Thank you.

There was one interesting project that they have been worling on relating to the food industry which is basic to inflation and basic to every consumer in America. They analyzed the fact and found that there were 1200 diffetnet size packages handled in the grocery store which complicates warehouse handling, sizing of storage, sizing of transportation and so forth.

On the other hand, in Switzerland there is a chain store which deals in four separate sizes. They were working towards an industry-wide effort to try to reduce the number of packages that have to be handled throughout the entire system.

If successful, I am sure that each one of us as a consumer would derive direct cost benefits.

MR. MORGENS: Mr. Secretary, I would like to differ with you a little bit on that. As a marketer of packages, the size of thepackage that is put in there is one tha the consumer wants, and for a government Productivity Commission to tell the consumer what size package he should have and it seems to me to be one more step of Big Brother in the private enterprise system.

Nobody puts out a multiple set of packages except insofar as it is desirable from the consumer standpoint.

SECRETARY DENT: You could not be more correct e except the effort was to try to get the industry together, no regulations and have them talk it out and come up with a reduction on their part -- certainly no regulation in mandatory type, just pulling together forces as they did in the construction industry.

MR. MORGENS: One more point on that, if I may. Would it be too much to suggest that a federal Productivity Commission ought to direct its attention first of all to greater productivity in government before it tries to tell private industry how to be more productive.

SECRETARY DENT: We have one that is known as the Office of Management and Budget.

[Laughter.]

MR. MORGENS: Well ---

SECRETARY DENT: A point well taken.

MR. MORGENS: All right.

SECRETARY DENT: Are there other comments? Yes, Berkeley.

MR. BURRELL: Just one little rejoinder to that. I would agree with Mr. Morgens. You asked the question, for example, as you examine productivity and I think up until the time that we established the Productivity Commission you always brought in government at zero productivity and then tried to improve it in other sectors so that you would bring the zero up a little bit or that the

others would come down and somehow balance out. But it is difficult to measuer, for example, the effectiveness of the school teacher or the effectiveness of a policeman -- how many people did he arrest? Is that good productivity? How many lives did a doctor save? It is just difficult to measure some segments of the economy.

Now, some are more identifiable than others. Is a trash collector a good trash collector because he can collect 100 pounds of trash an hour or something? Those are sectors that the government finds -- the federal, state and local governments -- difficult to measure.

We were trying to construct models somewhere along the line that would give us some idea of what that total productivity was and then your answer would been difficult today and we had a chance to find out.

SECRETARY DENT: Thank you.

We are nearing the end and I would like to give an opportunity to each one of our co-hosts from the Congress to in several minutes summarize their impressions or ask final questions thatmay be on their minds.

Congressman Ford of Michigan.

CONGRESSMAN FORD: Well, you just put me in trouble because I am the most junior member on this side. I think I should defer to the gentlelady who is the dean of our delegation in Washington.

SECRETARY DENT: We will work up, rotate from ---

MR. FORD: I have already taken my share of time. I am very happy that I had an opportunity to be here and hear what you have heard today. Some of you here today have talked to us before and it was not too long ago that we sat down with John Carter and heard firsthand the specific views of some of the things that we have been doing.

I hope that I clearly understood as I listened to the interchange going back and forth, that you as the leaders of business recognize what some of us have had to finally recognize, that we don't have any magic formulas available and that we may finally be coming to that period of realism in governments where we quit trying to convince the American people that we can solve problems as intricate as this problem with some immediate package of legislation or some immediate action by the President or a combination thereof, or that we can do it very soon in the future or do it on a very permanent basis.

The very fact that the business community has reached the stage that I heard coming through here today, I think, Mr. Secretary, will be supportive of the long, hard work that is ahead of you and ahead of the Administration and the Congress. I think it also speaks here of an attitude of a good deal of cooperation that will be forthcoming, and for that I know we are all going to be appreciative.

Thank you for coming to our city.

SECRETARY DENT: Thank you.

We will swing to the minority side, Congressman Schuster of Pennsylvania.

CONGRESSMAN SCHUSTER: I have one final area that I would just like to touch on, Mr. Secretary, and it is a sensitive area, but that makes it no less important and that is the area of anti-trust. We heard very little about that today. I would raise the question: Do we need a new look at our anti-trust laws and particularly do we need a different set of anti-trust laws in relation to our dealing in the international marketplace?

It seems to me that, well, maybe we need tougher anti-trust laws at home. We perhaps need a very different kind of anti-trust overseas when we have to deal with cartels

backed by national governments and is this insignificant or would anybody care to comment on it?

MR. S. FISHER: Finally, Congress should establish free market prices. This commission would be charged with carefully reviewing the many existing laws and regulations which were decided for another time, but do not fit the economic realities of today. The commission would then recommend to Congress solutions designed to repeal these laws. In some areas we need to start all over again. I didn't include the words "anti-trust", Congressman, but that was certainly one of the things in my mind there.

Yes, these laws were mostly designed when this country was mostly self-sufficient, when we were not faced with the need for international cooperation and international competition. I think many of them, including our regulatory agencies, which also impinge on the same economic problem, do need a careful review.

SECRETARY DENT: Thank you.

We may have an opportunity to come back to that point for discussion.

Now, Congressman Nedzi.

MR. NEDZI: Mr. Congressman, I also express my appreciation for the arrangement of this conference. I, like I suspect everybody else present, agreed with some of the points made and disagreed with others. Some of the points obviously require further study and are intriguing.

For what it is worth, I just would like to express my deep concern in an area that was touched upon and that is the whole question of the finite natural resources that exist in the world. I sort of lean toward Dr. Thorelli's view that it is not too realistic for the United States, wealthy as it is, to try to be self-sufficient. I just don't see that in the cards. While I see the desirability of less reliance on others in the world, we are going to have to live in the whole world and with the continuing developments on the so-called underdeveloped nations and the increasing aspirations of these countries and competition for those resources. The future is

not very bright if we don't sit down and study the entire matter very, very deeply. While I recognize that setting up a commission is sometimes a way of avoiding a problem, I think it is absolutely essential that we address ourselves to what I consider to be a very basic problem.

SECRETARY DENT: Thank you.

Congressman Conable of New York.

CONGRESSMAN CONABLE: Thank you, Mr. Secretary.

I would like to add my thanks to you for the conduct of the meeting and for the way in which you kept us on schedule and' kept us dealing with relevant points.

I think if there is some sense of frustration here, it is almost inevitable also as we deal with a very complex area and and econometric model that encompasses the whole country and has some variable that it is very difficult to deal with.

I think we all sympathize with the President of the United States and the leaders of the Congress who have to make some of the basic decisions in the area of economic policy which obviously are going to have to be made. If we fail to deal with the issue of inflation, we probably will impose on the American people more hardship than we can impose if we move with reasonable credibility, admitting that we may not know all the answers and th may not be able to wait until we do know them.

I think I see here today several elements of consensus that you may not agree with, but I believe they have been repeated a number of times in our discussion.

First, there is an obvious feeling that there has to be some discipline in Government if we are creditably to lead an assault on inflation. That discipline which I sense would seem to indicate that most of you would prefer to see placed more vigorously on the fiscal side than on the monetary side, although with respect to monetary policy,many of you feel that a basically restrictive policy is still a good idea.

I sense also that many of you feel that Government had better consider with particular reference to long-term tax policy the kind of incentives that will encourage saving and capital in-investment rather than the incentives that will put the emphasis on consumption particularly at this point when capital investment is so desperately needed to increase the supply side of a badly imbalanced supply equation.

Beyond that, I am sure most of you would agree any policy must take due account of the inequities inflation inevitably vests on particularly vulnerable parts of the economy including the poor,those who own comparatively little property, those who are dependent on large amounts of long-term financing.

I think it is inevitable that the President will go over the record of this and the other meetings that are being held. That certainly is the intention of the Steering Committee of which I am a member and will derive from this the kind of conclusions as to consensus which will permit decisive government action, not in the indefinite future but as quickly as possible.

SECRETARY DENT: Thank you,Mr. Conable.

Congresswoman Griffiths.

CONGRESSWOMAN GRIFFITHS: Thank you, Mr. Secretary.

I too would like to thank you and the President for sending you. You see -- good things come from having a Michigan President.

I would like to say that it is obvious that all of us have learned, if we did not know before, what Mr. Henry Ford pointed out, that we are in competition throughout the world for a short supply of raw materials.

Since Americans have gone around and taught the Europeans, the Asiatics and Africans what there is in the world, all those people want to have it now, and it is a big problem of who is going to get it.

But in our own country, in my opinion, we have to look to the fact that more and more Americans want a better and better life for themselves.

The largest item in the budget this year,last year and next year is not defense. It is the transfer programs--$142 billion next year.

Somehow or other, if you are going to make any cuts -- and in place of cuts in the budget many of you today were really offering cuts in taxes which would have to be made up elsewhere -- if you are going to make a cut in the budget, then you should hit into those areas that have the most money in them, and that would be in the transfer programs or in defense. Nothing has been said about defense.

I used to be a purchaser, and if we just had better purchasers, we could do it. That would do something.

But the thing I think that finally this group at this summit must come up with is a suggestion that follows equally upon all Americans. You cannot ask some to sacrifice and not others; or it not only will destroy our own credibility as a government, but it will destroy the suggestion itself.

There are placed in the budget where we would come out much more equitably than we do now, but you cannot hit it with a broadaxe. It will have to be done with very subtle tools, and you are going to have to go into the programs that could be reached and could be straightened out. I hope that we come up with such suggestions in the future and, naturally, I look to this group which is my own to do just that.

SECRETARY DENT: Thank you very much, Mrs. Griffiths.

We also have with us another great Michigander, William Seidman who is the Executive Director of the Conference on Inflation. Bill, I wonder if you have a message about the forthcoming conference or this one?

MR. SEIDMAN: Thank you,Mr. Secretary.

On behalf of the President, I would like to thank all of you for taking your time and giving us your best thinking on what I guess we can all be fairly well convinced is a very difficult and complicated problem.

I want to assure you that what you have said is of importance. It will go before the decision-makers in Government and will be given every consideration.

Obviously, someone at some point is going to have to choose between alternatives which have been presented here and in other meetings, but I think it can be said and will be proven that what has been done in these meetings will be an important part of the decision-making process, and what is decided will affect Americans and the world for many years to come.

So, we appreciate the efforts that you have made, and I would like to add just one thing: while inflation is the key problem now, it still is true that we have to increase productivity and production and gross national product for everyone to improve.

The most thankless battle is the battle over the same size pie and who is going to get a bigger chunk of it. Therefore, if we had no inflation, if we were not increasing the total pie,we would be in trouble.

So, the many suggestions that have been made in that area, I think, we can consider particularly relevant.

I would like to thank the Secretary and the Department of Commerce for the great job they have done in putting this meeting together. We look forward to seeing you all on September 27th and 28th in Washington where we will try to put all of the various things together in a pattern for decision-making which is the objective of the summit.

Thank you very much.

SECRETARY DENT: Thank you.

Earlier, Steve Bechtel mentioned the success achieved by the construction industry stabilization committee. This was achieved largely because of the representation of the various elements in that industry. I think that what has gone on here today between the private sector, the Executive Branch and the Congress is the type of interplay that is going to make such a substantial contribution to understanding the economic problems of this country and pulling together a solution to it.

I cannot thank each participant enough for that which you have done to make today such a great success.

I would like also, Howard Morgens, to refer to your comment about efficiency in Government and to observe that my colleagues, the technicians of the Department of Commerce got this room at midnight last night. By 3:30 a.m., they had put together the electronic system, set it up as it is, and I think they pass the test of any efficiency group. (Applause.)

In concluding, on schedule, we would like to invite the press to come forward if they wish to have a final few questions with the hosts. Otherwise, thank you for having attended and for your participation. (Applause.)

(The conference was adjourned at 4:20 p.m.)

III. COMPENDIUM:

A collection of papers from conference delegates and the general public

September 25, 1974
46 Prescott Avenue
Bronxville
New York
10708

Mr Frederick B Dent
Secretary of Commerce

Dear Mr Dent,

Now that the Economic Summit has revealed how appallingly barren is the cupboard of the major economists, perhaps you will consider the enclosed Adams Proposal. I enclose a copy along with my recently completed supporting paper, plus a sheet prepared by a labor relations man.

With the impending failure of present policy it is imperative that we have an alternative to the threat of price control. Here it is — a safe way to stop expanding the money supply.

May I know how you feel about this?

Sincerely,

Mildred Adams

RE : THE ADAMS PROPOSAL

The Adams Proposal asserts that governments cause inflation through the expansion of the money supply, but that our government is helpless to stop increasing the money supply. This is because rising wages cause rising prices which, in turn, require more money. To date the only alternatives have seemed to be more money (meaning more inflation) or, lacking that, a rise in unemployment.

The premise underlying the Adams Proposal is that the entire spectrum of conventional economic thinking is not up to the task of resolving this check-mate. It says that this is so because the root of the trouble is not economic but political.

The present effort of the government is to try to fine-tune a slowing down of the economy without causing a depression. The big question is whether this can be done. Conventional thinking says that a nation restrains inflation by restraining demand, but, if the problem is largely costs, then the job cannot be done with traditional tools of a fiscal or monetary nature.

The Adams Proposal is not based on maverick economic thought. It pays full homage to the quantity theory of money. It presents a politically acceptable way of eliminating the factor that is forcing the incessant increase in the supply of money. It proposes to accomplish this through a comprehensive program implemented with legislative provisions.

It is saying, implicitly, that the present wringer technique of high interest rates, which is being forced on the country at any cost, is futile, unnecessary, and, most importantly, ignores our most desperate need, a way to increase productivity.

When politics as stubborn as those dictated by the Employment Act of 1946 produce their inevitable result, it is difficult for anyone in authority

to point the finger at the underlying cause of this inflation -- wages. The problem posed by the unpopularity of speaking out on this subject is compounded because no one has been able to see a way out of political wage determination.

The Adams proposal provides a way out and would accomplish the following :

1. It would make the Employment Act politically irrelevant.
2. It would reintroduce flexibility into the pay of workers and thereby, reestablish a free market, since all factors would again be flexible.
3. It would halt the rise in prices and thereby give the government the means to stop expanding the money supply.
4. It would raise productivity nation wide, thereby raising the real value of everyone s income.

How would it do all this ? Through a national program initiated by legislation containing no long term coercion, but which has, among other features, tax concessions adequate to convert most of the country to profit sharing.

The question arises at once : is the objective to institute profit sharing for its value to our free market system or to stop the inflation ? The answer is both, but the method of the Adams Proposal has one single minded goal : to stop the expansion of the money supply.

The reason that this solution will be correct whereas the present course of the government is ineffective lies in the origin of this inflation. Let us put it in historical perspective.

The widely held view that either a balanced budget or high interest

rates or both will slow down the inflation is subject to the following :

About a balanced budget : social welfare programs, since their inception in the 1930's, have had a dual function. In addition to their admittedly humanitarian origin, they became, increasingly, a means, a device, an excuse, a reason to inject money into the economy for the Keynsian purpose of inflating to cure unemployment. The welfare programs all acquired their own voting lobbies as time passed, but they were, additionally, a means to the end of supporting the biggest lobby of them all, the wage lobby. Since there had to be a method of inflating, if Keynes's ideas were to be carried out, these programs provided the rationale for that inflating.

Keynes's belief that labor would accept the lower real wages resulting from inflation has proven untrue. Labor demanded the bargaining power, not just to overcome the lower real wages, but to raise wages above market level. When, finally, the Employment Act of 1946 mandated the government to maintain full employment <u>with</u> above market wages, the present inflation became only a matter of time.

One of the true things that Keynes said was "The ideas of the economists and the political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else".

Were we, now, to adopt the Adams Proposal, it would result in a political change as fundamental as that instituted by Keynesian ideas. It would negate our need to inflate via social welfare programs. We could, then. limit the creation of new social legislation to our capacity to pay for it and bring the budget into balance. The important thing is that the balanced budget would be largely the <u>result</u>, not the cause of stopping the inflation. We could, at

last, begin to recover from the disaster that Keynes's ideas brought upon us.

But, limiting the budget to slow inflation, with no action to stop non-productive wage increases, would have little effect. Even a budget decrease, sufficient to bring on a depression and cause massive unemployment, would not, by itself, affect wage rates. The political power of labor is great, and the American voter wishes it to remain so.

About high interest rates : since high interest rates are a result of inflation, a premium, they cannot provide a cure in a market that is not free because it does not have a flexible labor factor. The effect is like pushing on a string. We can shove interest rates so high, or retain them so long, that we bring on a liquidity crisis. We could even contract our fractional reserve banking system, and cause a panic, but we would not stop the wage inflation. We would then have depression and inflation simultaneously, and the public would demand total wage and price control, including control of interest, profits and dividends. We would have accomplished the end of our free market system.

About our international monetary problems : apart from the aggravation the oil crisis has added, it was foreseen by Keynes, among others, that the differing rates of inflation in the various countries, caused by their differing internal (political) wage policies, would bring international exchange problems. He said " Thus the more difficult task of an international currency scheme, which will only be fully solved with the aid of experience, is to deal with the problem of members getting out of step in their domestic wage and credit policies". And again "each national price level is primarily determined by the relation of the national wage level to the national efficiency". Were

the United States to adopt the Adams Proposal, thus keying its wage level to its national efficiency, it is probable that most other industrialized countries would follow and adopt similar programs. Then our international monetary problems would become more resolvable.

It is a puzzle as to why most economists are so hostile to the idea of profit sharing, although they acknowledge that it does not controvert market theory. The answer seems to lie in their ignorance of what is going on out in the country. Their ivory towers have not been penetrated by this reality. They do not know that approaching twenty-five percent of all the companies in the country have already voluntarily adopted profit sharing. Another explanation is that, historically, practice has preceded theory in economics.

Even Keynes said "Of course, I do not want to see money wages forever soaring upwards to a level to which real wages cannot follow". And the great free market theorist, Hayek, is on record with these words : "The only solution of this problem (inflation) I can conceive is that the workers be persuaded to accept part of their remuneration, not in the form of a fixed wage, but as a participation in the profits of the enterprise by which they are employed". Walter Reuther said "Profit sharing would resolve the conflict between management apprehensions and worker expectations on the basis of solid economic facts as they materialize rather than on the basis of speculation as to what the future might hold...". On another occasion Reuther said "I commend profit sharing to the consideration of this committee, the Congress, and the public as a potentially valuable feature of a sound and equitable incomes policy".

There is no conventional economic solution to the present inflation. The only way out is to move our labor relations from an era of confrontation to an era of cooperation.

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A Brewing Success?

Mood at Chock Full O'Nuts Perks Up As Rheingold Unit Exceeds Expectation

By MARY BRALOVE
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — Although William Black lunches occasionally at Manhattan's posh 21 Club restaurant, no one would describe him as being the last of the big-time spenders.

On the contrary, the 66-year-old chairman of Chock Full O'Nuts Corp. prides himself on building a 73-unit lunch-counter chain and coffee business by watching corporate nickels and dimes as fiercely as he guards his customers' pocketbooks.

So it surprised many observers when Mr. Black raced to the rescue last March and saved this city's Rheingold brewery from oblivion and 1,600 workers from unemployment. At the time, when Chock took over Rheingold breweries from PepsiCo Inc., financial observers predicted that the Rheingold beer operations, which lost $1.3 million in 1972 and $4.4 million in 1973, could very well drag Chock Full down with it. Even the more optimistic observers—including Mr. Black—figured that it would be years before Chock would begin to stem Rheingold's losses.

Four months ago, for instance, things looked so bleak that Mr. Black announced that Rheingold's operations were expected to cause Chock to report a decline in consolidated net income or possibly a net loss for its year ended last July 31. (For its year ended July 31, 1973, Chock Full reported net income of $2.3 million, or 57 cents a share, on sales of $51.7 million.)

Nowadays Mr. Black is feeling more chipper about things, although Chock Full hasn't yet reported for the most recent fiscal year. In an interview in his executive office above a Chock Full O'Nuts unit in mid-Manhattan, Mr. Black disclosed that for the period May 1974 through August 1974, Rheingold breweries reported a net profit of $212,594 on sales of $36.5 million. While this period is traditionally the best season for beer sales, the results still startled Chock executives.

"I think it's phenomenal that we're able to be in the black this soon," says Mr. Black, who now feels that Chock as a whole will show a profit for fiscal 1974.

Relieved but Cautious

In reporting Rheingold's profits, however, Mr. Black didn't take into account the first two months of Rheingold operations under Chock management. Most of March was spent gearing up beer production for delivery, because PepsiCo had closed most of Rheingold's operations. And most of April was spent shaking up and settling down operations. If these two months are included, Rheingold's operations for the period from March 9 through Aug. 31 swing to a net loss of $322,981, on sales of $46.3 million.

In any event, Chock executives view these results with relief and optimism. But they are also moving cautiously. Earlier this month, for instance, Mr. Black cautioned in a memo to Frank Connery, who was brought in from P. Ballantine & Sons to head up Rheingold beer operations for Chock, that "we're now approaching the lean season. If we don't watch every penny from now until the warm weather starts again, we'll be in serious trouble."

Clearly the message to "watch every penny" has reached almost everyone in the "Heavenly Coffee" ranks. For instance, Michael Okola, Chock's executive vice president, says the Rheingold's profitability can be greatly improved by cutting expenses or, as he puts it, "eliminating the country-club atmosphere that existed at Rheingold."

Mr. Okola perhaps takes his cue from Mr. Black, who earlier this year hired J. Walter Thompson Co. for a new Rheingold advertising campaign. Mr. Black felt that he was being overcharged for the agency's services and says he fired it. J. Walter Thompson, on the other hand, says Mr. Black wanted a deluxe advertising campaign for a bargain-basement price and so it resigned the account. In any case, Rheingold's advertising now is done by a house agency.

Mr. Black also keeps a close eye on his customers' expenses. Last year he says he fought the Federal Trade Commission for the right to set prices lower than Chock's 33 lunch-counter franchises wanted. (He lost.) Earlier this year, he won the hearts of inflation-conscious New Yorkers by reinstituting a no-tipping policy at the 40 lunch-counter restaurants that the company owns.

A Union Agreement

For the short-term, Mr. Black attributes Rheingold's success primarily to the agreement he worked out with the brewery unions before he agreed to take over Rheingold's beer operations. When PepsiCo acquired Rheingold Corp. in 1972, it announced its intention of disposing of the brewery operations while retaining Rheingold's four profitable Pepsi-Cola soft-drink franchises. For over a year, PepsiCo sought a buyer. There weren't any takers, however, because of high-paying union contracts.

Moreover, most companies accept the opinion of most security analysts that small regional brewers can't survive against the intense competition from national brewers. The big three brewers—Anheuser-Busch Inc., Jos. Schlitz Brewing Co. and Pabst Brewing Co.—grabbed most of the industry's growth in 1973 and currently control half the U.S. beer market.

Drexel Burnham & Co., a New York-based international investment-banking firm, predicts that by 1977 the national brewers' share of market will reach over 58%. "Combining market share erosion and cost pressures, it still seems reasonable to expect the number of (smaller) brewers to decline rapidly by 1980," Drexel Burnham said in a recent report.

So last January, PepsiCo announced plans to close Rheingold's Brooklyn brewery and lay off 1,600 brewery employees out of work. About this time, Mr. Black recalls, "I got a call from my lawyer that the unions were ready to talk. That's when I got involved."

Mr. Black negotiated terms whereby the unions agreed to cut back the brewery's work force by a third (saving Chock an estimated $6 million), increase productivity and extend its current contract for another three years. In return, Mr. Black instituted a plan under which workers receive 10% of Rheingold's profits.

While Mr. Black negotiated seperately with the unions at Rheingold's three breweries in Brooklyn, East Orange, N.J., and New Bedford Mass., the cutback mostly affected workers in the Brooklyn and New Bedford facilities. These three facilities serve the five-state region of Massachusetts, Connecticut, New Jersey, New York and Pennsylvania.

Moreover, Rheingold's profit picture is improved by the fact that Chock doesn't have to subtract depreciation for its Rheingold operations before calculating its profits because Chock paid nothing for the assets. Under the agreement with PepsiCo, Chock assumed Rheingold's $10 million short-term debt but also received $10 million of Rheingold's current assets. PepsiCo, in turn, agreed to assume Rheingold's $20 million long-term debt and promised to pay Chock any subsequent difference between Rheingold's current liabilities and current assets. In effect, PepsiCo unloaded a money-draining operation to Chock, while Chock paid PepsiCo nothing.

Promoting Low Calories

Aside from trimming Rheingold corporate fat, Mr. Black has other plans for turning PepsiCo's white elephant into a profitable workhorse. He is modernizing the Brooklyn brewery and expects to have a push-button brewing operation there finished by November. Recently, the company arranged to sell beer in Puerto Rico and will begin distribution there next month. In addition, Chock is gearing its advertising of Rheingold's low-calorie Gablinger's beer to the women's market—a market Mr. Black believes the old Rheingold management never fully exploited.

Currently Chock plans to use Rheingold's excess capacity of two million barrels at its three breweries by producing a near beer—that is, a beverage that is brewed exactly like beer except that the alcohol is cooked off. (Currently the only other near beer on the market is a Swiss-made product.) Although Rheingold is still perfecting the product, it now is casting about for a name that will appeal to a teen-age market. Suggested names include Dipso, Snort and Lush.

No one is willing to predict, however, whether these will pull Rheingold and Chock Full O'Nuts onto a more profitable footing. Mr. Black remembers thinking when he first entered negotiations with PepsiCo for Rheingold's beer operations that "you don't get this whole business for nothing. There has got to be a catch." The coffee executive now is beginning to understand and deal with some of those catches.

THURSDAY, SEPTEMBER 19, 1974

Flying High

New Pilot-Pay Pact At Delta Air Lines Has the Industry Agog

Other Lines Are Horrified At Prospect of Matching 'Superinflationary' Raises

For Top Captains: $100,000

By TOM E. FANIELL
Staff Reporter of THE WALL STREET JOURNAL

When it comes to airline pilot salaries many a traveler would take this position: "Those guys should be paid anything they want; when I'm flying my life is in their hands and I want them perfectly happy."

Listening to executives of other airlines in recent weeks, one would assume that passengers subscribing to that theory and flying on Delta Air Lines should feel completely safe these days. That's because Delta and the Air Line Pilots Association, representing the line's 3,200 pilots, quietly negotiated earlier this summer a 30-month agreement that boosted annual pay rates 31%, including a 15% jump this year. Details of that pact have come to light only in recent weeks and haven't been published previously.

"It looks to us now like Delta gave them all the money they wanted," declares a top executive of one of the biggest U.S. airlines. "This pact has created traumatic shock waves throughout the industry, and its inflationary impact probably will spread far. Delta can afford it, but it's a big problem for all the rest of us. Every union in the industry will want similar increases and we'll be whipsawed."

The agreement not only puts wages of Delta's pilots well ahead of cockpit crew members at other airlines but also is believed to provide for the highest salaries ever negotiated by any labor union. "We consider it as having put our senior pilots in the over $100,000 income class," an ALPA spokesman says. The union obtains that figure by adding the $52,000 base salary the typical Delta Boeing 747 captain will reach under the agreement and company-paid pension and insurance benefits that average about 25% of a pilot's base salary. Delta currently has 29 pilots assigned to 747 duty.

New Unrest Seen

The Delta pact has become a hot issue at nearly every other domestic airline. "We consider it's terms to be superinflationary," says a spokesman for Braniff Airways, which is facing an imminent strike threat from its pilots. Interviews with numerous officials at other carriers reveal similar sentiments. With few exceptions, they predict it will lead to a new period of labor unrest in the airline industry, perhaps strikes, neglected cost problems for many carriers and still stronger pressures for further passenger fare hikes.

It has dropped Delta's popularity among executives at sister carriers to a new low and, in some cases, stirred feelings of anger. "I don't have any friends at Delta," one top industry executive snaps when asked if he has gotten an explanation of certain terms of the agreement from Delta. "Some of us even are suspicious of Delta's motives," says another, hoping that executives of the financially-strong carrier may be relishing the prospect of watching less prosperous airlines wrestle with the problem of matching its pay scales.

Delta, while declining to discuss details of the agreement "because it has become a rather sensitive matter," firmly denies all the charges. "We feel it's a good, sound contract for Delta and we do not feel it's inflationary," asserts David C. Garrett Jr., Delta president. The ALPA also defends the terms: "We don't consider the pay increases at all excessive under the circumstances," a spokesman says.

Braniff is providing the first big test for the pattern-setting potential of the Delta agreement. The complex procedures of the Railway Labor Act that govern airline negotiations have been exhausted and the airline's 1,300 pilots will be legally free to strike this Saturday. Braniff officially says it has made its pilots "an excellent offer" and "it's inconceivable to us that they would strike."

But many industry sources think a strike is likely because Braniff has taken a hard line against ALPA demands that it match the Delta pay scales. "They're far apart, and somebody's going to have to bend a lot," claims one source.

A $42,000 Base

The Delta agreement was retroactive to last Jan. 31 and extends to July 31, 1976. It contained pay increases effective as of Jan. 31 (5.5%) and May 1 (9.5%) this year, next Jan. 1 (10.2%) and Feb. 1, 1976 (3.4%). According to the ALPA, the two boosts this year have raised the current base pay of Delta pilots—including copilots—to an average of close to $42,000 and the figure will approach an estimated $48,000 before the agreement runs out. (A Delta official calls these estimates "too high," but the carrier, like most airlines, declines to give its own figures on the ground that pilot pay computations are so complex it would be very difficult to calculate an "average" figure.)

By comparison, the ALPA says the average annual salary of all pilots it represents at 36 airlines is now $35,000. Braniff, which is being pressed to match the Delta scales, says it has been paying its pilots about $39,000 on average.

For veteran Delta pilots, the basic pay scale jumps are even more impressive: Its 747 captains, for example, now average over $71,000, up from under $62,000 last year. Their salaries will jump to nearly $79,000 in January, and by early 1976 will be close to $20,000 ahead of their pay rates at the start of this year. Captains of Delta's next largest planes—wide-bodied Lockheed L1011s and McDonnell Douglas DC-10s—are now getting base pay of $60,700 and will reach $[illegible] while captains of the smallest plane in its fleet, the twin-engined McDonnell Douglas DC-9, are now at $47,000 and will reach $[illegible]500. First and second officers (known as

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some airlines as copilots and flight engineers) make less, of course.

For its part, Delta says it obtained certain manning and "duty rigs" changes that will increase its pilot productivity and offset the apparent high cost of the pilot agreement. (Duty rigs are the complicated regulations under which pilots receive pay and flight-time credits toward their monthly maximum hours of work for the time spent on duty when they're not actually flying a plane.) After calculating such offsets, and taking into account the staggered application of the pay increases, the agreement will increase the airline's total pilot costs by 10% this year, 9% next year and 2% in the first seven months of 1976, says Robert Oppenlander, Delta's senior vice president for finance.

But other airline executives claim they have carefully analyzed the Delta agreement and, in the words of one, "we can't find any of these alleged offsets." Still others concede that there may be productivity gains hidden within the contract that will help Delta but that the changes involved wouldn't be of any material value to their own systems. A Delta source says this confusion isn't surprising because it's impossible for one airline to figure how another's contract would work since every carrier has its own unique crew scheduling requirements. Also, he says, others may be overlooking a reduction of about 150 pilots that Delta expects to achieve through the new agreement in its manning requirements.

Whether or not Delta derived significant productivity benefits, there's full agreement that Delta's duty rigs already were more favorable to the company than those in other airline contracts. Delta gets about 50 actual flying hours per month from its pilots, the highest among the major airlines and significantly above the 43 hours, for example, that United Airlines, the largest U.S. carrier, is averaging.

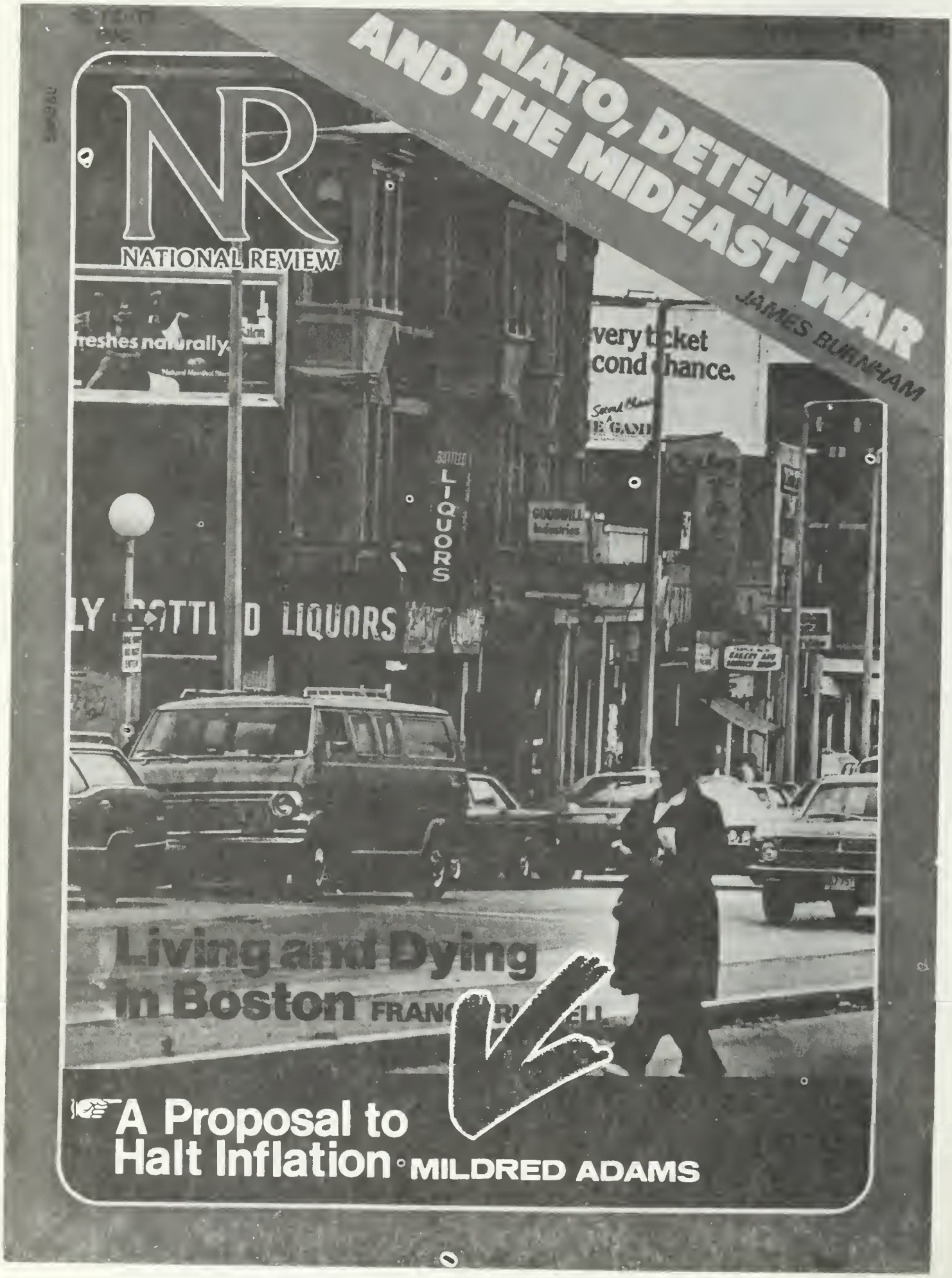
Further, there's little question that Delta is in better position to afford the settlement than any other carrier. It earned $90.6 million in the fiscal year ended June 30, an airline industry record even though it is only sixth in size among the U.S. carriers. As measured by the Civil Aeronautics Board, Delta's rate of return on investment for the year was 17.5%, easily the best in the industry and well above the 7.1% average for all 11 major U.S. airlines. Delta's profitability also is far above the 12% rate of return the CAB has set as the maximum target for average industry profits.

"With those kind of profits, Delta easily can afford those salaries but we simply can't," says the personnel vice president of a major airline. "If we could approach Delta in getting rid of some of the 'make work' duty rigs we're stuck with, maybe we could afford similar pay scales. Unfortunately, our pilots have had their expectations raised by the Delta pay but won't listen to any counterproposals to match Delta's productivity rules," he claims.

Many airline officials express concern that Delta's contract will cause them problems not only with their own pilots but with other employee groups, too. "We've always followed a policy of not treating other employees like second class citizens and never given them relatively comparable 'catch-up' wage increases in the wake of pattern-breaking agreements with the flight crews," says one executive. "I don't think we'd be in a position to continue that policy now if we have to pay our pilots at the Delta rates."

Other tests of the Delta pay scales will be coming up soon after the Braniff case. New contract negotiations involving 12,[illegible] pilots are under way or due to begin shortly at United, National Airlines, Northwest Airlines and Eastern Airlines. The Delta pact is expected to be the big issue in all of these talks.

Subsequent to the Delta agreement, which was reached without any strike or deadline pressure (a most unusual situation in airline labor talks), negotiations have been concluded at Pan American World Airways and Trans World Airlines with the ALPA agreeing to pay increases similar to those it obtained at Delta. But many industry sources say the Delta contract will be a major problem in those cases, partly because of the shaky financial situation of those two international carriers and partly because details of the Delta agreement weren't yet widely known in the industry.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MILDRED ADAMS

A Proposal to Halt Inflation

MILDRED ADAMS

If socialism is intellectually dead, as loss of interest in its major tenets implies, then it remains to play out the political consequences. The current inflation is the price of the resulting power struggle.

We are so close to the problem historically that we do not yet see that the battle for the free market is won. Labor is already weaned from socialist to capitalist concepts in all but name, and the power struggle referred to above is over the division of profits.

Our present inflation is the end result of wage costs having been pushed above market level by sophisticated labor organizations which have the political power to accomplish it. But wage increases above market level (which is productivity level) result only in higher prices (or unemployment), giving government no choice but to turn the money crank sufficiently to cover the price rises. The expansion of the money supply causes the inflation which is now proceeding at an ever accelerating rate.

Although the quantity of money determines both the fact of and the extent of an inflation, turning off the money supply suddenly will not stop an inflation without severe unemployment, unless the prices of all factors in the market are flexible—which is no longer true since labor has the power to push wages ever upward.

Nor can we as a matter of practical politics repeal the legislation which gives labor this power.

Nor will coercive wage and price controls stop the inflation.

Nor will voluntary price control work unless labor unions willingly control wages, which they will not do unless assured of receiving a satisfactory quid pro quo—which is the burden of this paper.

Nor could the government risk the reintroduction of a gold standard domestically, for this would provide individuals with a method of protection against inflation. If people could seek refuge in gold, it would effectively thwart the government's need to inflate for both political and statutory reasons.

The destruction of any nation's money through inflation has always been a device for the transfer of power from one group to another. Today the power struggle is seen as a struggle over the division of profits, and we can stop the inflation only by getting to the root of the problem.

To date free market theory has said that labor, land, and capital belong on one side, that all three are market factors which should depend on supply and demand only. On the other side, we have said, belong the entrepreneurs who are not limited by the forces of supply and demand, but may use their brains, will, and energy to control or increase their incomes.

By locating labor on the supply and demand side, we have made two errors. We have limited increases in productivity to the contribution that can be made by the better tools provided by capital. Second, by limiting labor's reward to both the size and timing provided by the impersonal forces of the market, we have made it the helpless pawn of forces beyond the power of its individual members to influence. We have dehumanized those involved.

With wages determined by supply and demand only, the worker's instincts are denied and his dignity as a man is offended. Bonding with others in powerful unions to achieve bargaining power has helped assuage his feeling of helplessness. Socialism, with the power of the state organized to enforce labor's demands, became a most appealing lure. All the damaging results of government intervention in the business of production were unknown to him. He reached blindly for what promised to be a solution to the problem of his restricted participation as an individual. As a result, our economy lost production, not only through government interference, but because the immense creativity of its workers was untapped.

Thus labor and capital seem to be at an impasse:

1. Labor insists that the root of the problem is the need for a better distribution of the wealth produced.
2. Capital insists that the on-going problem always has been and always will be how to achieve more wealth.

We are now in a position to see, if we will, that both labor and capital are both right and wrong. Labor is right to wish a better place at the table, but wrong not to see that government controls merely impede production, so that we end up with a smaller pie to divide. Capital is right to wish to increase production, so that there will be a continuously bigger pie to divide, but wrong not to see that labor cannot be made a beggar at the table where the pie is divided.

The Right and Wrong on Both Sides

The solution outlined here brings together the right on both sides and eliminates the wrong on both sides. This proposal of a method to stop the inflation may be revolutionary in scope and in method of introduction, but it is not revolutionary in principle. The change might have come about, historically, a step at a time, if we had had more foresight. Now the inflation is such a severe threat to social order that we shall have to make the change all at once, on a national scale, if it is to serve the purpose of stopping the inflation. Here is the proposal in steps:

1. Wage increases need to be brought within productivity increases.
2. This is politically acceptable to labor only if productivity increases are sufficient to bring steadily increasing real wages (calculated in terms of what wages buy).
3. Productivity can be increased only by getting the full cooperation of labor.
4. Labor will cooperate fully only when it is given adequate incentive to do so.
5. Adequate incentive is the same for labor as it is for management or entrepreneurs. It consists of a cause and effect relationship between creative effort and reward. There is no other way to release the creative effort of human beings.

Mildred Adams [McLearn] is president of the Adams Institute Inc., a nonprofit foundation for the development of new economic and political theory.

6. Putting this principle to work in practical terms means profit sharing with the entire spectrum of workers included. This would release the pent-up energy and ingenuity of all echelons of people and rid them of their hostility toward management.

But, and this is of critical importance, profit sharing instituted on a company-by-company, step-at-a-time basis would *not* suffice to stop the inflation, because it could not affect the economy of the whole country. However, if instituted as a national policy, all at once, across the entire industrial and business community, it would stop the inflation—*not just slow its upward spiral, but stop it dead.*

Why would this simultaneous action stop the inflation? Because, with wages held within productivity levels, there would be no rationale for generally increasing prices, and therefore no necessity for the government to expand the money supply to cover the price rises. And it is the government's expansion of the money supply, and this alone, which causes inflation.

Of equally critical importance is that profit sharing *not* be imposed as a mandatory, across the board percentage of profit, determined at the government level or even at an industry level. Since an increase in productivity is the goal, it is essential that the incentive of profit sharing be geared to the increase in profits of the single company and appropriate to the circumstances of the business involved.

How about the issue of unemployment, which is almost as compelling as the inflation? Both problems have the same root. Although it is out of fashion to mention it, one of the most dependable phenomena of a free market is the unemployment of those whose wages have, by one means or another, risen too high for the service performed. Since we can depend on the market to perform reliably in regard to unemployment and its relationship to wages, we can expect that, when all labor is paid within the limits of its productivity, employment of all those wishing and able to work will soon become a reality.

When the great market crash of 1929 precipitated the great Depression, we were told that capitalism had failed, that the market system generated booms and busts which would destroy us all if we did not institute government controls. This advice we have followed with the inevitable result that, because man resents controls and seeks loopholes, one government control necessitates another and we are now threatened with total wage and price control

Did Capitalism Fail?

But did capitalism fail? Does the market system generate booms and busts? No, it was the government's expansion and its subsequent contraction of the money supply that caused the trouble in the great crash. And the prescription urged on us was more of the same medicine that had poisoned us.

However ill advised the cure, we need to understand that labor *did* have a just cause which provoked the massive political involvement in the determination of wages. It is a bitter lesson, learning that inflation is not the way for the workingman to identify with capitalism.

Capitalism is the only new economic system. It is barely an infant as history goes and our modern market system is still evolving. To date, it has been only a partial system in the sense that its entrepreneurial aspects, which operate on incentive motivation, have involved only a minority of the populace. The very large majority are still hirelings who see our system as little different from any other economic system. It is no wonder that there has been little popular appeal in capitalism as an idea.

We have been denying ourselves full use of the *one* most valuable characteristic of our system, incentive as the key to productivity. Every human being needs partnership in the enterprise to which he chooses to devote his energies, once he has been accepted as a member of that enterprise.

In order to facilitate the transition of the market into an all-inclusive system, we need a method of removing wages from politics that will make the labor legislation irrelevant, and this proposal (with its specifics) is designed to accomplish that end by substituting an effective and lasting solution for the impasse created by that legislation.

Profit sharing is not new in America; over one hundred thousand companies have profit-sharing plans. A recent study by the Profit Sharing Research Foundation of a number of our largest retail chains showed superior performance in every respect of the profit-sharing companies over the non-profit-sharing companies in the years 1952 to 1969. Especially encouraging was that the longer the plans had been in operation, the wider the margin between the success of the profit-sharing companies over the non-profit-sharing companies. This means employee security in the job as well as employee and stockholder profits.

At high union levels there is an acute awareness that further straight wage rises are becoming increasingly self-defeating. There is growing realization that the strike weapon can permanently destroy jobs, and that the future of the unions lies in becoming constructive agents as far as profits are concerned. Further, there is impressive evidence that unions can contribute to helping their members become more productive.

If instituted simultaneously over the country at large in order to stop the inflation, basic wages (before profit sharing) would need to start at the present levels, so that no economic contraction would occur. But all future increases in pay (at least until the inflation was only a memory) would need to be based solely and directly on (and be proportionate to) increases in productivity and its resulting increase in profits. As long as the purpose remains killing inflation, profit sharing would not mean sharing ownership or deferred plans (although the option to purchase shares at a discount should always remain open to employees), but, specifically, *the sharing of current net profit.* This would focus the problem on increasing productivity (and profits) for everyone from top to bottom.

It would probably take a year (conceivably quite a bit longer) before the general increase in productivity over the country began to push prices downward. But a halt in the general rise in prices would start the day the program was instituted.

Stockholders could take heart that this would be good news for them. The shared profits would come out of increased profits, which would also mean increased dividends. Profit sharing is not a cost of operation and does not enter into company overhead and pricing. It can be calculated to take effect only after an adequate rate of return has been supplied to the stockholder.

Once inflation is ended, profit sharing can be converted from just the sharing, in cash, of current net profit into deferred plans or combination cash and deferred benefits. It can become participation in company ownership, sav-

ings, a retirement plan, termination pay, a loan in distress, or a down payment on a home. All of these options are now working with success.

Profit sharing would provide the grand alternative to Karl Marx, who wanted to destroy private ownership and deny man's need to own things. Capitalism should provide the reverse: individual ownership for everyone, paid for out of his own productivity and in proportion to it.

What if some companies didn't produce enough profits? Then the capital invested is obviously in the wrong enterprise or a new management is needed. A consistent lack of profits is the free market's method, even now, of signaling a need to shift the capital to more profitable uses. When an enterprise be-

comes outdated there is no choice but to scrap it. This never happens to a large number at one time.

How about federal, state, and municipal employees? The free market will transfer the pay level of private industry to these workers. For instance, if workers begin leaving government because they can earn more in private business, the governments at various levels will have to raise pay (current or deferred) to hold personnel. The same economic laws will determine the wages of all other workers where the employer has no profit.

How could such a far-reaching change as universal profit sharing, really revolutionary in scope, be instituted? The question of overriding importance, of course, is whether it could be initiated without government force. Government force to accomplish any end is anathema to those who see man as a creature of self-chosen purpose. This view translates into the principle that moral suasion is the only justifiable goad to action.

With the low estate to which confidence in government's ability to solve people's problems has sunk, the initiative is naturally beginning to pass into the hands of organizations that depend on voluntary cooperation for their effectiveness. Government coercion is becoming suspect at long last. If this is so, it is to be hoped that conversion from straight wages to a wage base plus profits could be accomplished by negotiation between unions and employers, and between employees and employers, as far as specifics are concerned, with a target date for the inauguration of the program set far enough in advance to accommodate the negotiations.

In presenting the program to the country, one of our greatest assets might turn out to be our labor leaders. If they were invited to share a series of television programs with the President and with the leaders of both parties in Congress, their influence with the members of their unions might be the deciding factor in a successful launching. Some of the corporate chairmen with practical experience in piloting their own organizations to success with profit sharing should also be included in the programs. Their enthusiasm for what profit sharing accomplishes in employee satisfaction and its resulting increase in productivity is inspirational.

An educational approach might prove to be persuasive. Workers need to understand the other ways in which profits should be divided with stockholders and with customers in the form of better prices. We all need to know about the capital that companies must retain for renewal and growth.

Interim Devices

What kind of short term devices and tax credits would it be justifiable to use?

1. The granting of a tax credit to all kinds of business for conversion to profit sharing. This should be *as large a credit as is necessary to be effective*, and it should be continued for as long as is necessary to accomplish its purpose. This would need to be integrated with existing legislation that exempts income paid to workers as shared profit.

2. A wage freeze for one year or for the period of time necessary to facilitate conversion. The freeze would be on wages only, not on pay increases derived from increased profits. Since the workers would be sharing any profits due to any price rises, the control of wages only (until conversion had been accomplished and inflation had ceased) would not be a one-sided penalty on workers. Another advantage would be that the price mechanism of the market could function, as it always does when free, to increase production in those areas in which prices were rising, thereby holding down prices in the only way which is effective.

3. Government workers, and other employees where profit sharing would be an unworkable procedure or where either the company or the employees did not opt for profit sharing, would be compensated (during the wage freeze) as follows: They would participate in the national increase in productivity by basing their increases in pay on a national average percentage increase in income due to profit sharing, calculated at the end of the year and applied retroactively. For those on private payrolls, this procedure would last only until the conversion was accomplished. As far as government employees are concerned, the procedure would serve additionally as a trial model to key the largely nonproductive public sector to the productivity of the private sector.

4. Possible abolition of the investment tax credit to corporations for two reasons. First, as a method of retrieving revenue to assist in enabling the tax credit for conversion to profit sharing to be large enough to be effective without affecting the level of government revenue during such an historic transition. Second, because the tax investment credit fosters excess investment in the final stages of an inflationary boom.

5. If it could be worked out equitably, a special premium in the form of no income taxes on an individual's increases due to profit sharing. This would compound the incentive on this money. It might prove a most interesting feature to labor.

It is a sure thing that inflation as a method of increasing wages has failed, and that the incentive method should prove more rewarding for all. □

TO READERS OF THE ADAMS PROPOSAL:

There are scores of examples at the micro-economic level which prove the efficacy of The Adams Proposal at the macro-economic level. I will cite just two; first, one proving that the profit-sharing approach increases productivity and employee compensation without pushing up costs and prices and, secondly, one showing how pay increases in excess of productivity increases push up costs and prices.

AMERICAN VELVET COMPANY, Stonington, Connecticut, is the last major velvet producer whose complete operations remain in New England. Its competition has moved to lower pay areas in the South or abroad. This Company owes its survival to its extraordinary profit sharing plan, which was instituted in 1939 after a 16-month strike, as the quid pro quo of an agreement by members of Local 110 of The Textile Workers of America for each weaver to operate four looms instead of the two they operated before the strike. Each year 27% of profits before taxes go to employees who, according to Company President Jacques Wimpfheimer, are already better paid than prevailing wages in the industry. Profit sharing means about $800 a year extra for each weaver. The Company has earned a profit every year since 1939. Since 1939 there have been no strikes and no dispute has gone to outside arbitration. It required only two minutes for Company and Union bargainers to reach agreement on the latest union contract.

To keep ahead of foreign competition, union members agreed to increase the weavers work load, first from two looms to four as part of the strike settlement, then to six and finally to eight, although the technology of weaving velvet remains basically the same - a 400% increase in productivity over the pre-strike level.

RECOMMENDATION: If, and when. The Adams Proposal is considered by a Committee of Congress, the President of this Company and the Local Union President should be invited to testify how profit sharing boosted productivity,employee income and Company profits. without pushing up costs.

DELTA AIRLINES, whose profits outstrip airlines with foreign flights, has negotiated an increase in pay and benefits of its pilots of 31% over 30 months, bringing a top pilot's pay to over $100,000 a year. Braniff, with foreign flights and smaller profits than Delta, has been struck by its pilots, demanding what Delta pilots got. Like other U.S. airlines with foreign flights, Braniff is already at a disadvantage in competition with foreign-based airlines, not only because of the subsidization of those airlines by foreign governments but also because the pilots and other employees of the foreign airlines are paid far less than the Americans, even before the Delta increase. Pan American has been denied the subsidy it sought, in order to continue operating. Had the subsidy been granted by the President and Congress, American taxpayers, earning far less than airline pilots, would have been supplementing such salaries out of their taxes.

If, instead of aggravating this situation by its big pay increase, Delta had instituted profit sharing, its pilots might very well have received just as much total income as the new contract gives them - perhaps even more since Delta is a very profitable airline. Then, if such a "profit sharing pattern" had spread to other airlines, the employees of such airlines would have had the same incentive as American Velvet employees have to increase efficiency, productivity and profitability, with correspondingly less need for the airlines to petition Government for subsidies and higher fares.

Profit sharing does not increase costs, whereas compensation increases far in excess of productivity increases inevitably push up costs and prices, whether it be in an individual company or in the entire national economy.

THURSDAY, SEPTEMBER 19, 1974

Flying High

New Pilot-Pay Pact At Delta Air Lines Has the Industry Agog

Other Lines Are Horrified At Prospect of Matching Superinflationary Raises

For Top Captains: $100,000

By TOM E. FANELLI
Staff Reporter of THE WALL STREET JOURNAL

When it comes to airline pilot salaries, many a traveler would take this position: "Those guys should be paid anything they want; when I'm flying my life is in their hands and I want them perfectly happy."

Listening to executives of other airlines in recent weeks, one would assume that passengers subscribing to that theory and flying on Delta Air Lines should feel completely safe these days. That's because, Delta and the Air Line Pilots Association, representing the line's 3,200 pilots, quietly negotiated earlier this summer a 36-month agreement that boosted annual pay rates 31%, including a 13% jump this year. Details of that pact have come to light only in recent weeks and haven't been published previously.

"It looks to us now like Delta gave them all the money they wanted," declares a top executive of one of the biggest U.S. airlines. "This pact has created traumatic shock waves throughout the industry, and its inflationary impact probably will spread far. Delta can afford it, but it's a big problem for all the rest of us. Every union in the industry will want similar increases and we'll be whipsawed."

The agreement not only puts wages of Delta's pilots well ahead of cockpit crew members at other airlines but also is believed to provide for the richest salaries ever negotiated by any labor union. "We consider it as having put our senior pilots in the over $100,000 income class," an ALPA spokesman says. The union obtains that figure by adding the $52,000 base salary the typical Delta Boeing 747 captain will reach under the agreement and company-paid pension and insurance benefits that average about 23% of a pilot's base salary. Delta currently has 20 pilots assigned to 747 duty.

New Unrest Seen

The Delta pact has become a hot issue at nearly every other domestic airline. "We consider its terms to be superinflationary," says a spokesman for Braniff Airways, which is facing an indefinite strike threat from its pilots. Interviews with numerous other airline executives reveal similar sentiments. With few exceptions, they predict it will lead to a new period of labor unrest in the airline industry, possible strikes, accelerated cost problems for airlines and still stronger pressure for further passenger-fare hikes.

It has dropped Delta's popularity among the lines of other carriers to a new low and, in some cases, stirred bitterness and anger. "I don't have any friends at Delta," one top industry executive says, adding he would like to have gotten an explanation of certain terms of the agreement from Delta. "Some of us even are suspicious of Delta's motives," says an airline, hoping the executives of the financially-strong carrier may be relishing the prospect of watching less prosperous airlines wrestle with the problem of matching its pay scales.

Delta, while declining to discuss details of the agreement "because it has become a rather sensitive matter," flatly denies all the charges. "We feel it's a good, sound contract for Delta and we do not feel it's inflationary," asserts David C. Garrett Jr., Delta president. The ALPA also defends the terms: "We don't consider the pay increases at all excessive under the circumstances," a spokesman says.

Braniff is providing the first big test for the pattern-setting potential of the Delta agreement. The complex procedures of the Railway Labor Act that govern airline negotiations have been exhausted and the airline's 1,200 pilots will be legally free to strike this Saturday. Braniff officially says it has made its pilots "an excellent offer" and "it's inconceivable to us that they would strike."

But many industry sources think a strike is likely because Braniff has taken a hard line against ALPA demands that it match the Delta pay scales. "They're far apart, and somebody's going to have to bend a lot," claims one source.

A $52,000 Base

The Delta agreement was retroactive to last Jan. 31 and extends to July 31, 1976. It contained pay increases effective as of Jan. 31 (5.5%) and May 1 (9.5%) this year, next Jan. 1 (10.25%) and Feb. 1, 1976 (3.5%). According to the ALPA, the two boosts this year have raised the current base pay of Delta pilots—including copilots—to an average of close to $42,000 and the figure will approach an estimated $48,000 before the agreement runs out. (A Delta official calls these estimates "too high," but the carrier, like most airlines, declines to give its own figures on the ground that pilot pay computations are so complex it would be very difficult to calculate an "average" figure.)

By comparison, the ALPA says the average annual salary of all pilots it represents at 35 airlines is now $35,600. Braniff, which is being pressed to match the Delta scales, says it has been paying its pilots about $40,000 on average.

For veteran Delta pilots, the basic pay scale jumps are even more impressive: Its 747 contains, for example, now average over $71,000, up from under $62,000 last year. Their salaries will jump to nearly $79,000 in January, and by early 1976 will be close to $80,000 ahead of their pay rates at the start of this year. Captains of Delta's next largest planes—wide-bodied Lockheed L-1011s and McDonnell Douglas DC-10s—are now getting base pay of $60,500 and will reach $80,000 while captains of the smallest plane in the fleet, the twin-engined McDonnell Douglas DC9, are now at $37,000 and will reach $39,500. First and second officers (known as

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MIDDLEWAY TRANSPORTATION JOURNAL

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some airlines as copilots and flight engineers) make less, of course.

For its part, Delta says it offers certain guarantees and "duty rigs" changes that will increase its pilot productivity and offset the apparent high cost of the pilot agreement. Duty rigs are the complicated regulations under which pilots receive pay for flight-time credits toward their monthly maximum hours of work for the time spent on duty when they're not actually flying a plane. After calculating such offsets, and taking into account the staggered application of the pay increases, the agreement will increase the airline's total pilot costs by 10% this year, 9% next year and 8% in the first seven months of 1976, says Robert Prendergast, Delta's senior vice president for finance.

But other airline executives claim they have carefully analyzed the Delta agreement and, in the words of one, "we just can't find any of these alleged offsets." A few others concede that there may be productivity gains hidden with the contract that could help Delta but that the changes involved wouldn't be of any material value to their own systems. A Delta source says this confusion isn't surprising because "it's impossible for one airline to figure how another's contract would work since every carrier has its own unique crew scheduling requirements. Also, he says, others may be overlooking a reduction of about 150 pilots that Delta expects to achieve through the new agreement in its manning requirements.

Whether or not Delta derived significant productivity benefits, there's full agreement that Delta's duty rigs already were more favorable to the company than those in other airline contracts. Delta gets about 80 actual flying hours per month from its pilots, the highest among the major airlines and significantly above the 48 hours, for example, that United Airlines, the largest U.S. carrier, is averaging.

Further, there's little question that Delta is in better position to afford the settlement than any other carrier. It earned $76.6 million in the fiscal year ended June 30, an airline industry record even though it is only sixth in size among the U.S. carriers. As measured by the Civil Aeronautics Board, Delta's rate of return on investment for the year was 17.3%, easily the best in the industry and well above the 7.3% average for all 11 major U.S. airlines. Delta's profitability also is far above the 12% rate of return the CAB has set as the maximum target for average industry profits.

"With those kind of profits, Delta really can afford those salaries but we simply can't," says the personnel vice president of a major airline. "If we could approach Delta in getting rid of some of the 'in the work' duty rigs we're stuck with, maybe we could afford similar pay scales. Unfortunately, our pilots have had their expectations raised by the Delta pay but won't listen to any counterproposals to match Delta's productivity rules," he claims.

Many airline officials express concern that Delta's contract will cause them problems not only with their own pilots, but with other employee groups, too. "We've always followed a policy of not treating other employees like second-class citizens and never given them relatively stunning wage increases in this kind of pattern-breaking agreements with the flight crews," says one executive. "I don't think we'd be in a position to continue that policy now if we have to pay our pilots at the Delta rates."

Other tests of the Delta pay settlement will be coming up soon after the Braniff strike. New contract negotiations involving other pilots are under way or due to begin soon at United, National Airlines, Northwest Airlines and Eastern Airlines. The Delta pact is expected to be the big issue in all of those talks.

Subsequent to the Delta settlement, which was reached without any strike or strike pressure, to most carriers, all other airline labor unions, nonetheless, have concluded at Pan American World Airways and Trans World Airlines with the ALPA agreeing to pay increases similar to those it obtained at Delta. Industry sources say the Delta contract raised a major problem in those cases mainly because of the risky financial situation of those two carriers. Of course, details of the Delta contract weren't yet available to the unions at the time the

AMERICANS FOR DEMOCRATIC ACTION
SUITE 704 • 1424 SIXTEENTH STREET, N.W. • WASHINGTON, D.C. 20036 • TEL.: (202) 265-5771

September 23, 1974

INFLATION/RECESSION

The attached memorandum covers ADA's proposals for dealing with the problems of inflation and recession. Any comments would be welcome.

AMERICANS FOR DEMOCRATIC ACTION

Americans for Democratic Action
1424 Sixteenth Street, N. W.
Washington, D. C. 20036

September 1974

INFLATION/RECESSION

Inflation is the most critical economic problem facing this nation. Its effects are universal; it threatens not only the living standards of the vast majority of Americans, but the stability of our economic system as well.

It is imperative that inflation be brought under control. But, serious as the problem is, the control of inflation cannot become the be-all and end-all of U.S. economic policy.

Inflation must be addressed in the context of a broader set of economic problems:

--the persistence of poverty and near poverty for millions of Americans;

--unacceptable rates of unemployment--creating insecurities throughout the labor force and tragedy for many, particularly minorities and women and youth of all races;

--a misallocation of resources and priorities between public and private sectors;

--a concentration of economic power in several hundred relatively large corporations and banking interests which clearly exercise more influence on the economic system than the policies of the federal government; and

--real or threatened shortages of food, fossil fuels and other raw materials.

Inflation must be considered and reduced in the context of these problems and in the context of values to which ADA and other liberals are dedicated. Bringing inflation under control will require a high degree of economic planning and control.

Unlike many of the nation's earlier inflations, which were caused by excess demand and could be controlled through monetary and fiscal restraints, the current inflation appears to be structural in nature. In substantial part, it is due to the increased cost of such fundamentals as energy and food. It also reflects, of course, administered corporate pricing.

Moreover, because these increases have been in essentials, particularly food and fuel, the impact of inflation has been most severe among poor and middle income people. The cost of food has been increasing more than half again as rapidly as the overall consumer price index. (The consumer price index for all items increased from 125.3 in 1972 to 148.3 in July 1974, <u>an increase of 18 percent</u>; the cost of food increased from 123.5 in 1972 to 160.5 in July 1974, <u>an increase of 29 percent</u>.) The cost of bread and beans, staples for most low income people, has doubled or trebled. The Administration's reliance on monetary and fiscal policies is misguided and counter-productive. Last month wholesale prices increased at an annual rate of more than 50 percent. Consumer prices increased at an annual rate of 10 percent. Yet housing starts plummeted

to the lowest level in a decade. Unemployment in the construction industry is well over 10 percent. Overall unemployment is over 5 percent and rising.

Otto Eckstein, a former member of the Council of Economic Advisers, has estimated that, if present policies continue, unemployment must rise to 8 percent for at least two years in order to bring the inflation rate down to 4 percent. Such a controlled recession would mean a loss of more than $150 billion in Gross National Product. Average personal income after taxes would be at least $300 per year less for every person in the United States. Corporate profits would be depressed by more than $15 billion below full employment level. Federal, state and local governments combined would lose about $55 billion in foregone revenues--roughly equivalent to two-thirds of recent total public expenditures on education, or two-thirds of the 1974 defense budget.

Such a controlled recession quickly could become a major depression.

Not only is full employment compatible with controlling inflation, it is essential if we are to deal equitably with the impact of inflation. The cost of fighting inflation must not be paid by those least able to pay--workers, minorities, women, young people, old people, and all the other poor and near poor people who already bear, in many cases, the extra burden of unfair discrimination. Provision of full employment opportunities, through public service employment and through stimulation of useful and productive efforts in the public and private sectors, should be the cornerstone of economic policy.

ADA reiterates its support of the proposed Full Employment Act of 1976 which would establish the mechanisms necessary to bring about full employment and to give every individual seeking employment the right to a job.

Bringing inflation under control requires serious and perhaps painful efforts, along lines proposed below. But controlling inflation is only half the problem. We need also to soften as best we can the serious impact of inflation--in such essentials as food, fuel, housing and health care--on the lives of low and middle income people as they find themselves slipping further and further from financial security. The basic essentials of life should be available to all. Government has a responsibility for insuring that these essentials, particularly food, are available at stable and acceptable prices. We urge that immediate and serious study be given to methods of economically achieving this objective.

In the national effort to control inflation, we make the following specific recommendations:

1. Wage and Price Controls

Our experience during World War II and the Korean war tells us that wage-price controls can serve us well, providing a temporary leveling of prices so that the disparity between demand and supply can be reduced. A large section of our economy, of course, already has price controls--controls administered by corporations for private profit making. The important point is that controls are entirely feasible and can provide a period of time in which other elements of an anti-inflation anti-recession program can be brought into play. While they cannot reduce basic costs of raw material and fuel, they can limit the impact of those costs.

We need price controls, aimed especially at the administered price sector of the economy--controls designed and administered by those who believe in them. We need no more public relations exercises carried out by those who seem more interested in proving that controls cannot work than in devising controls which do.

The fact is that controls have worked. They worked during World War II and they worked during the Korean war. In the Korean war period, in one year we were able to bring inflationary prices from 7 percent down to 2.5 percent--while keeping unemployment at 2.5 percent of the labor force. And between 1942 and 1946--a period of four years--there was less inflation in wholesale prices than we have seen in the last month (3 percent compared to 3.9 percent) and interest rates were stable at approximately 3 percent. The history of controls during the Second World War is, on the whole, a history of success, of shared shortages and stable living standards.

Wage controls also are necessary, although we recognize that they pose difficult problems of equity. Labor must be permitted to catch up with inflation in its wage scales, perhaps through such a formula as Otto Eckstein's proposed 10 percent wage guideline and 5 percent price guideline. Needed is an effective mechanism to prevent abuses, while keeping wages and white collar and professional salaries abreast of prices, allowing for increased productivity and providing some redistribution of income. We recognize, and to some degree share, the misgivings of organized labor about wage controls under the current Administration. We urge that in drafting legislation the Congress provide specifically for fair and equitable standards and an effective, nonpartisan enforcement mechanism. We note that the history of labor demands has been a history of constructive responses to genuine efforts to keep prices under control.

2. Fiscal Policy

First, we must recognize that fiscal policy does not mean cutting back or restraining needed social programs. Indeed, we need new and expanded programs in such essential areas as food, housing, health care, education, transportation, and protection of the environment. The cost of these programs can and should be offset by tax increases focused at upper income levels, and/or by cuts in other programs--the Pentagon, road construction, space and selected subsidy programs, for example.

No discussion of U.S. inflation, in fact, can be complete without recognizing that it is in large part rooted in the Vietnam war and the continuing maintenance of a huge military establishment. Changes in spending priorities can be made and should be made.

Moreover, we should recognize that present federal, state and local budgets--taken as a total--are in fiscal balance. That is, total revenue exceeds total expenditures. Even so, we urge consideration of a number of tax increases, both in the interest of equity and in order to provide funds for needed social programs. An immediate federal income tax surcharge on upper income families--the top fifth of the income distribution--is needed. Money raised from this surcharge could be used in part to lower regressive wage taxes--the heaviest burden carried by low income workers. Further, taxes should be levied on unneeded luxuries or where taxes can restrain excessive use--for example, a tax

on luxury automobiles. And all luxury excise taxes should be retained, reimposed or strengthened.

We do not need, in our fiscal policy, more gimmicks and tax loopholes to encourage investment. Our tax system is far too inequitable already. When demand is present, investment money is no problem. When demand is not present, tax loopholes and similar incentives encourage the wrong kind of investment. At this point, the kind of investment we are likely to get would be used for labor-saving equipment, not the expanded capacity which is needed.

3. Monetary Policy

The tight money policy of the Administration has not controlled inflation. But it has had serious impact, particularly on small businesses. Housing starts have fallen by more than 30 percent in the past year and building permits in July 1974 were issued at a rate of barely one million units--less than half the level of production in recent years and a fraction of what is needed. Small businesses are being forced into bankruptcy through inability to borrow funds. Moreover, with effective wage and price controls we need not rely on credit as a major inflation control.

What is needed now, however, is not a general loosening of credit, but rather a sophisticated use of powers which the Federal Reserve Board already has to encourage credit flows in directions where either bottlenecks exist or essential industries are in serious depression. And where private investment is insufficient, the government itself should step in to make loans available in such essential areas as moderate and low income housing. The combination of credit allocation and direct lending should assure that essential investments are made, that state and local governments have access to the financing which they need, and that small businesses are able to borrow at reasonable rates.

4. Full Employment

We must not permit those who can least afford the strain to suffer the effects of mistaken past policies of government. The federal government needs to take seriously the responsibilities imposed by the Full Employment Act of 1946. An immediate and substantial public service employment program is needed--perhaps in the nature of a $10 billion program which could supply one million jobs at prevailing wage rates. Money for this program could come from the surcharge to be placed on high incomes and from money saved from cuts in the Pentagon budget, road construction, space programs, etc. Such a program is especially useful because it directs expenditures specifically to individuals in need and can be limited specifically to needed services in education, health, transportation, and the like.

5. Bottlenecks

There is need for vigorous, comprehensive government programs to break the bottlenecks responsible for much of the inflationary spiral. A maximum expansion in U.S. food production--especially grain production--is required, plus control of gas and oil supplies. This can be done by direct government programs, by channeling credit or lending money directly to industries where shortages of capacity threaten to limit overall economic expansion.

6. Competition--or the lack of it

The failure of the government to enforce anti-trust laws contributes to the concentration of great economic and political power which in turn leads to high prices. Huge corporations operate outside the framework of a normal competitive system. The President should recommend legislation making control of a large portion of any market an anti-trust violation per se. We should end the penetration and control of many of the largest corporations in the country--and indeed in the world--by bank holding companies which restrict competition, generate conflicts of interest and jeopardize the soundness of our system. The Anti-Trust Division of the Justice Department and the Federal Trade Commission should be strengthened and encouraged to carry out their work vigorously. Industries in heavy concentrations, such as the automobile industry, should be broken down into smaller units which could inspire competition.

The power of economic regulatory commissions to protect present insiders from effective competition raises the cost of vital services. In particular, the powers of the Interstate Commerce Commission, the Civil Aeronautics Board, the Federal Maritime Commission and the Federal Communications Commission to support cartels and restrict competition should be curtailed or, better still, eliminated. The whole mechanism for regulation of the transportation industry should be reformed drastically to encourage competition instead of discouraging it as at present.

Finally, we ought to discourage unnecessary energy- or resource-wasteful or ecologically unsound private consumption brought about by excessive private advertising. Perhaps a first step could be to disallow advertising expenditures as a business cost in the computing of corporate income tax liabilities.

* * *

September 17, 1974

President Gerald R. Ford
The White House
Washington, D.C.

Inflation and the Economy

Dear Mr. President:

The reasons for our high Inflationary plight are well known, we know how it happened but no concrete moves, existing or proposed by all high minded advisors in any publicized utterances take direct aim at stopping the upward thrust. The persistant price spiral not only must be stopped but must be pushed back to lower realistic levels.

Just hoping this condition will go away is folly; "pinching pennies" is an excercize in futility; the Game Plan of your Advisors or the "Old Time Religion" is not working; Budget cutting will be too little and too late and the ordinary Laws of Supply and Demand are not taking hold.

If our Economy has to suffer through 2-4 more years of continued Inflation as hinted by Messers Simon and Ash, or stagger until July 4th, 1976 as suggested by you or await the return of the new Congress in January, it will have collapsed completely catapulting the Economies of the Western World with it. Even waiting for your high level Economic Conference on Sept. 27th and for any possible solutions that may develop from this meeting will be too late. Positive action must be started now or there will not be an Economy to discuss on Sept. 27th. A FOUR STEP PLAN solution is presented below.

The Game Plan-why it is not working.

The present plan originated during Mr. Nixon's Presidency and still subscribed to by Messers Burns, Simon, Ash, Rusk and Greenspan is the "Tight Money" approach which is supposed to decrease the Demand(D) for money and hence goods by high Interest rate(I) pushed up by curbs on the Money Supply(M). The straight jacket placed by the Federal Reserve Board on the Money Supply has pushed Interest rates to staggering levels and has paralyzed the Economy of our Country.

Anti-Inflation action taken to date has resulted in high Interest rates but now these high Interest rates are adding fuel to the Inflationary fire because the high cost of borrowing is being passed along to the eventual consumer in the form of increased costs and higher prices. The only positive benefit of the Plan that appears to please the Fed is the flow of Foreign capital into the United States.

The disastrous effects on the Building and Real Estate Industries, the Automoblie Industry, Public Utilities, the Savings Banks, the Financial Markets, the Capital Goods Industry and on every business person or individual who have borrowed money "tied to Prime" all seem ignored.

Part of the Game Plan is an attempt to push our Economy toward a Quasi-Recession, increasing unemployment and thereby decreasing the demand for goods and services. This is a "No-Win" policy and has stunned our European friends. Doesn't anyone see the possibility that this policy will, by inertia, carry a Recession into a non-stop Depression? European observers see it. Don't any of the Game Planners whose salaries are fixed and who receive their pay checks regularly, feel for the unemployed American worker? The Unemployment Rate just increased from 5.3% to 5.4% in August and projections of a 7% rate have been made. How long will it take between the 5.4% and the projected 7% rate for the proposed 4 Billion Dollars to be filtered through the System so the additional 1.5 Million unemployed people be given Public jobs so they can start living like ordinary Americans again? and from where is the 4Billion Dollars coming?

Tight Money has not brought a drop in automobile prices with sales off 16% but an increase in prices instead; Tight Money has not brought a drop in building costs and wages even though building starts are off 50%; Tight Money has not broken Union wage demands so employers could cut prices and Tight Money has not resulted in lower food and steel prices. High British and French Treasury officials urged Messers Burns and Simon in their last meeting to ease up on our Tight Money policy as rates are too high to be counter productive on the fight against Inflation and instead they threaten to topple the World into a deep Recession. The Organization for Economic Cooperation and Development just reported from Paris that the rate of Inflation in the United States compared to other industrialized countries had increased in the last three months. In short Tight Money is not working but is wrecking the US Economy and also threatening World Economies. It is very apparent that these facts are being ignored by your Advisors. <u>When no improvement is shown by a sick patient, different medecine is tried or the doctors changed</u>.

Budget Cutting-too little and too late

Budget cutting is a target of everyone in and out of Government. Those out of Government always try to make Federal spending the "whipping-boy", while those in Government will agree on any cuts except those in their own particular budgets. Using a Budget cut now is too little and too late. The wide gap between the 10 Billion Dollar cut proposed by Mr. Burns and the realistic cut of 500 Million Dollars suggested by Mr. Ash point out the futility from this front. Some Economists feel that more, not less Federal spending is the only method to fight Inflation!

A real Budget Balancing act can only start in July 1975 which is too late. In the meantime the constant siphoning of more and more funds by the Treasury Department out of the Money Supply as well as the steady drain by all other Federal Agencies

from this same source is pushing the Demand side of the Money equation higher and higher. Even your simple and ernest proposal to delay Federal pay increases for 3 months unleashed a thunderous uproar from not only Government employees but from Labor Unions as well. It is apparent at this time that the Senate will over rule you.

Laws of Supply and Demand-not taking hold

The use of the Laws of Supply and Demand to fight Inflation has been ineffective on the Economy at this time. To increase Supply, consideration first must be given to availability of raw materials, plant expansion and increased Labor productivity. The time factor mitigates against these. Further in mass manufacturing or processing operations, unit costs and prices are supposed to decrease with an increase in the goods produced but the theory is not working today in our present system. The Game Plan infers that the Demand side of the Equation will fall more rapidly with the high prices caused by high Interest rates. But instead an endless cycle shows up here because the price drop resulting from the Demand drop will re-cycle Demand because of the lowered prices and push prices up again and so on.

You have had varrying views from the 28 non-Government Economists who met with you on September 5th, non of whom proposed a unified, concrete all correcting solution to the overall problem. Conflicting, diverging and contra-views were to be expected from this gathering of high minded individuals. There was general concurrence that Economist's proposals are theoretical and that present laws of Economics require newer interpretations. There never has been an Economic dilemma comparable to the one facing our Economy to day, hence the wide range of partial solutions.

The Solution-Four Step Plan

There is a way out-in all the rhetoric being expressed by Bankers, Businessmen, Labor Leaders, Economists, Congressmen, Government Spokesmen and in the News Media only partial, piece meal ideas have emerged, but no solid, all inclusive, wholly encompassing master plan has come forth. The following Four Step Plan can be implemented immediately and will salvage our teetering Economy:

1) The present restrictions must be taken off the Money Supply now

2) Export controls placed on scarce materials, goods and foodstuffs

3) Price and Profit controls

4) Wage controls

These Steps can be put into operation quickly and must be firmly and rigidly applied with no exceptions and no time limit indicated as to their durations. Every American must be made to realize that this is an all out battle which will be pursued as long as it takes to knock out Public Enemy Number One.

These Steps have been tried separately and each has been effective so that collectively the Steps will produce an overall plan that will work. In August 1971 Price and Wage controls were invoked and we had price stability. When the last controls were eliminated in April of this year, prices soared. In 1972 the Fed eased the Money Supply and the Economy prospered. This may or may not have been politically inspired which is only academic at this time. <u>If a Recession to stem Inflation can be produced by manipulating the Economy, why can't the Economy be stimulated by manipulation?</u>

<u>Step(1)</u> The Federal Reserve Board should be urged to repeat the steps it took in 1972 to ease the flow of Money, lower the Federal Inter Bank rates and reduce the Rediscount rate. A drop of at least 3% or 4% in the Prime rate would follow and a stimulating effect of the Economy would start. The strangle hold on every facet of American business would be loosened; money starved industries would be revived; the Securities Markets salvaged so corporations could raise additional needed funds normally instead of using the Banking System; Capital expansion plans now held up would get underway and a flow of new goods would be produced; the high cost of borrowing now passed along in the form of higher prices would drop, lowering prices; disintermediation would be reversed and mortgage money would become available again at Savings institutions.

A temporary negative effect of this first Step will be a weaker US Dollar which will tend to increase Foreign purchases here but the outward movement of scarce goods, materials and foodstuffs will be curtailed because of Export controls Step (2). Further the fear that funds will flow out of the US seeking higher interest rates elsewhere will diminish as Foreign money not only seeks high returns but also a safe Economy. The action being taken to strengthen our Economy would become apparent and any outward flow reversed.

<u>Step(2)</u> Export controls on scarce goods, materials and foodstuffs are vital. This will avoid a repetition of the problem we had 2-3 years ago when all these items were bought heavily with the increased purchasing power of Foreign currencies and shipped out. Our Balance of Trade will slide into a defecit position but Trade figures are only Economic Indicators and self correcting. Our weaker Dollar will inhibit the flow of imports and if Foreign countries want to sell to us with this condition prevailing, they will lower their export selling prices. A general decrease of World prices would result.

Step(3) Prices and profits must be controlled firmly so no special advantages accrue to Business. Businessmen will welcome price stability as their costs will stop rising.

Step(4) Labor Unions have received most of their catch-up wages and have become realistic enough to see that real gains only occur when the price spiral stops. Labor will co-operate as long as controls apply equally to prices and especially to profits and any remaining objections will vanish when prices start to ease.

Steps (3) and (4) can and should be approached more drastically with an all effort made to roll back prices and wages. The current level of prices has risen to shocking heights and must be turned back. Any number of gross, unjustified price increases can be cited but when the price of a Sunday newspaper rises from fifty cents to one Dollar in a few months, something is glaringly wrong here!

You as President can get this FOUR STEP PLAN underway by Executive Power and no Congressional action will be necessary. Senators Mansfield and Scott and all members of Congress will have no qualms about returning to face their constituencies, assured that a positive all out fight to combat Inflation has been started.

Copies of this letter are being sent to Messers Burns, Ash, Simon and Greenspan as these gentlemen appear to be molding Economic Policy.

Sincerely,

Vincent A Autuori

Vincent A. Autuori

511 Clinton Ave.

Bridgeport, Conn.
06605

SPECIAL MACHINERY - TOOLS - DIES - JIGS - FIXTURES - AUTOMATION MACHINERY

LELAND DETROIT MANUFACTURING COMPANY

5945 Martin Avenue • Detroit, Michigan 48210 • (313) 896-7910

September 18, 1974

United States Department of Commerce
Washington, D. C. 20230

Gentlemen:

Received your letter of September 6, 1974 stating that a conference will be held at the Detroit Hilton Hotel on September 19, 1974 at 8:30 A. M.

We are in full accord with such a conference dealing with our economy, but are sorry to state that no one has touched on the real cause of our troubled economy to date. Everyone seems to be beating around the bush (so to speak) but they fail to flush out the real trouble. Here is my personal opinion:

(1) Labor unions are demanding too much and upholding the laxity in labor. It costs the manufacturers approximately $600.00 to discharge an employee who does not produce a fair day's work. The labor unions take such cases to arbitration, which costs time and money.

(2) Productivity of labor today is down about 45% as of ten years ago. This is in the small shops who employ approximately 65% of the labor market.

(3) Get the labor unions out of government politics.

(4) Cut unemployment compensation pay in half and tighten up new applications. No one wants to work when they can get something for nothing.

(5) Our company could use some semi-skilled men. We have advertised stating good pay and fringe benefits. We have had one applicant in six months. What is wrong? Too much unemployment compensation.

(6) Too much bureaucracy in government. For instance, the Bureau of Safety and Regulation of Michigan are raising considerable trouble with the small businesses. For instance, our company has spent over $3,000.00 on safety guards, etc. and some of the guards are more dangerous on the machines than off.

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5945 Martin Avenue • Detroit, Michigan 48210 • (313) 896-7910

United States Department of Commerce P. #2

I have been manager and president of our company for over 54 years and in that time we have had two minor accidents, yet the government sends men into the field who have had little or no experience in operating the machines they insist on guarding.

Unions are a cancerous disease that someone must find a cure for to save our economy.

Very truly yours,

LELAND DETROIT MANUFACTURING COMPANY

Sid Bakewell

Sid Bakewell, President

Aug. 1, 1974

[illegible] Economic & Military Security

[illegible] Defense, Treasury, Commerce & the Pentagon:

We have just until Oct 1974 [illegible] has pulled out of NATO & Treasury has pan-American guarantee [illegible] Gold taken from NY Federal Treasury [illegible] the dollar has been (4 IMF supported) devalued from gold resulting in 2 years of inflation Hyper & World War I German inflation. Gold will be taken from US vaults in Jan. will the [illegible] by private citizens that will [illegible] tax-free in cross banks for private purposes. An impeachable President selected the present President & he in turn selected the V.P. Billy Graham is smuggling [illegible] into [illegible] them illegally but the US government [illegible] the newspaper [illegible] that a WOMAN [illegible] our VOICE home with honor & not the Det World Peace Winner holding it [illegible] nice. [illegible] the National Security Council

2) with authority vs. the CIA, Pentagon, Defense Dept, NATO & FBI etc. because responsible for:

1) the American defeat & long that effect in nation in Viet Nam for 6 years & American withdrawal & a coalition government (communist view)
2) the ousting of Nationalist China from the UN by Red China
3) the death of Ambassador Dunn
4) the invasion of both Greece & Turkey, NATO partners, in Cyprus
5) Israeli wrongs conflicting with US funds - US funding with no representation
6) Murder of American suspects without trial
7) Portugal & IMF pressure for private gold-buying & British Attack here - USA funding without representation
8) unemployment & unemployment in USA caused by Israel's struggle for security creating oil embargo
7) destruction of Egypt's pt & mine w/ the UN replacing Jerusalem which ± will NOT pick up
8) billions for Cyprus & Greek refugees for these ERRORS in dollars

[illegible] & high interest rates & lack of liquidity of sound, blue chip [illegible] yield the required rate of return, [illegible] in housing & employment. These recommendations as well as the [illegible] competition to US bonds in the money mess from Heath & Burns & I by Kissinger since Israel & Britain influencing American decisions as State Dept oriented. [illegible], Kissinger did all the [illegible] of my 2 books which can be found in SEC, Joint Economic Committee, Common Market, [illegible] & myself. [illegible] & Prime Minister heard their [illegible] to me.

End of RESENTMENT on my economic analysis and political details re the Communist trade, with peace as a condition. Then Pay 3 American Jews (2 of them naturalized while I am a citizen by birth) decided to TEACH ME A LESSON, SYNDICATE STYLE. As a result, they lured out their every permissive desire, turned our economy & allies, our Presidency young rise to 2 resignations. PROVED THAT I AM ECONOMICALLY RIGHT as well as POLITICALLY right. — Tell you #

am the PERSONAL ENVY (being a genius self-taught & a woman) of all of Judaism. Their ABNORMAL JEALOUSY of me brought all these American disasters. Read my books which are worth $2 million & see if I am lying.

Who is persecuting me & why, if I am not telling the truth. The Treasury, Pentagon & Defense Dept persecute me. But they have to go all the way because I am not Helen of Troy. It is against my desire to lose America's soul for female jealousy. I have nothing but contempt for American defeatism & ever-recurring recessions leading to depression. First, Pres. Ford, if he lasts in his illegal seat, must select a new National Security Advisor to let Kissinger "free" to pursue peace. He will be an insult & he will quit. Second, I must be nominated for a TV representation of the American Medal of Freedom* for my outstanding unprecedented courage & contributions to America & the world. Nature will take its course after.

Sincerely,
Denise Bailey

* While I still live in Corona a poverty area —

UNITED CALIFORNIA BANK
LOS ANGELES, CALIFORNIA, 90051

NORMAN BARKER, JR. CHAIRMAN OF THE BOARD

September 6, 1974

The President
The White House
Washington, D.C.

Dear Mr. President:

For the upcoming economic summit conference, we would like to endorse several proposals and also offer some of our own suggestions.

To strengthen the economy and ease hardships in specific areas

1. Financial ways and means should be marshalled to provide temporary relief for the housing industry.

2. Programs should be enacted or expanded to train the hard-core unemployed; to retrain workers displaced from declining industries; and to provide information on expanding industries and employment opportunities.

3. A public works program should be instigated on a temporary basis when the unemployment rate exceeds 6%.

4. Minimum wage laws should be modified to improve the employment opportunities for teenagers.

To ease financial strains and to bolster the stock market

1. The Federal Reserve System should reduce margin requirements, which may contribute to the restoration of confidence in the stock market.

2. The Federal Reserve System should ease monetary policy and provide clear signals of its intentions by definitive actions. Current policy, while creating numerous and serious financial crises, is also becoming counterproductive by causing corporations to borrow more than they otherwise would because:

   - Corporations, fearing further tightening of monetary policy and, thus, even higher interest rates in the future, have an incentive to borrow at today's rates;

   - Corporations, fearing a possible future credit crunch, want to secure funds while they are still available;

   - Corporate treasurers want to enhance the liquid asset position of their companies' balance sheets in case a liquidity crisis does develop; and

   - Corporations have little to lose by borrowing more funds than needed, as they can reinvest the funds at the same or higher rates.

   A change in the direction (or at least the attitude) of monetary policy would thus, ironically, dampen excess business borrowing, which has been the intention of the Fed all along. It may also bring inflationary relief in housing and construction.

To improve capital markets

1. Tax incentives for investment should be granted through larger loss deductions and lower tax rates.

2. The amount of income from dividends excluded from federal income tax liability should be increased to at least $500 per taxpayer.

To fight inflation in the "short-run"

1. Budget expenditures for the current fiscal year should be reduced to $295 billion, in order to be meaningful in fighting inflation.

2. The activities of the Council on Wage and Price Stability should be extended to major urban centers to monitor wage and price increases on a local as well as a national basis.

3. A definitive pledge should be made that wage and price controls will not be imposed at least through 1976. This will eliminate the temptation to raise prices and demand higher wage increases based on fears that controls are forthcoming.

4. Import quotas should be increased or abolished and high customs duties should be reduced to force domestic firms to be more price competitive and, thus, consumers would benefit from lower-priced foreign goods and services.

5. Consumer information centers should be established throughout the country to advise and educate the public on prices, quality and availability of lower-priced products.

6. A major effort should be made to promote energy conservation on a continuous basis in order to reduce demand and place downward pressure on prices.

To fight inflation in the "long-run"

1. Laws restricting competition, such as the Davis-Bacon Act and the Jones Act, should be re-evaluated, amended or repealed.

2. The anti-competitive effects of such regulatory bodies as the ICC, CAB, FCC, and FPC should be carefully reviewed with a general goal of returning industries to the discipline of free market forces.

3. Special tax incentives should be granted producers of basic materials in short supply in order to expand capacity that will assure price stability.

4. Environmental and safety laws should be reconsidered on the basis of their costs as well as their benefits.

5. And most importantly, we strongly support your goal of improving the productivity of this nation's labor, management, and physical facilities. We believe this to be the most worthwhile national priority for a healthier economy.

In brief, fighting inflation requires:

- a steady maintenance of responsible fiscal policy
- a rigorous evaluation of wage and price increases
- giving incentive to investment
- improved competition among producers
- elimination of obstacles to productivity and efficiency
- increases in supplies of scarce materials, and
- an all-out effort to increase productivity.

Many of the above suggestions have been articulated by various sources. In addition, we would like to make two specific proposals that would have a significant impact on the economy and capital markets.

1. We propose that the first $1,000 of interest income received from savings accounts be exempted from federal income tax. (A detailed proposal is enclosed). There are several reasons why we advocate such a plan:

   - It would reduce the negative impact inflation is having on the real value of family savings and would provide a powerful incentive to save.

   - It would provide greater equality among taxpayers in various income brackets. Taxpayers in higher income brackets have always had the opportunity to invest in tax free municipal bonds or tax sheltered properties. A tax exemption on interest income from savings would grant similar opportunities to middle and lower income groups.

   - It would reduce disintermediation from thrift institutions as the differential between the tax sheltered income of savings accounts and the taxable income from money market instruments bearing high interest rates would be reduced. The flow of funds to the housing industry would thereby be improved.

   - It would reduce the incentive of individuals to transfer funds abroad in order to protect the purchasing power of their savings.

   - Moreover, if this proposal is adopted there will be no need to subsidize the housing industry and related financial institutions in this or future financial crises.

We believe that the loss in revenue to the Treasury, which is estimated at $1.8 billion annually, would be outweighed by the overwhelming benefits it would produce.

No society operating within a free enterprise system can achieve a higher standard of living without encouraging investment, and savings is the best form of investment.

2. We would also propose that a major effort should be made to encourage the investment of Middle East oil revenues into U.S. energy-related industries. We believe this suggestion would be beneficial for the following reasons:

   - It would increase our domestic output of energy which in turn would result in lower prices for energy and would lessen our dependency on imported energy.

   - It would improve our balance of payments.

   - It would ease the strain on our capital markets. Reduced demand for domestic funds for energy related industries would result in lower interest rates and increased availability of funds for other industries.

   - It would create new jobs and additional income, over and above the normal patterns of economic growth.

   - It would positively tie the welfare of oil producing nations to that of the U.S. economy.

   - It should also promote a better understanding between America and the Middle Eastern nations, and hopefully it would strengthen the prospect of permanent peace in that region.

We believe that joint cooperation and endorsement by both the executive and the legislative branches of government is necessary for this program to succeed in attracting such investment capital. Such a joint effort could be effected through trade treaties that would be binding, convincing, and long lasting.

We hope that some of the foregoing suggestions will be useful and supportive in your attempts to find economically sound solutions to the problems facing us today.

Respectfully,

Norman Rader, Jr.

Enclosure
(A Proposal To Exempt From Federal Income Taxes The First $1,000 Of Interest Income Received From Savings Accounts)

BENEFIT AND IMPACT

In addition to alleviating the problem of declining purchasing power of the family savings and providing for equality of tax treatment, this tax exemption on interest from savings would provide many valuable benefits and would have a significant positive impact on various segments of the economy. These benefits include:

1. Incentive To Save: A tax exemption would be a significantly encouraging factor for the average citizen to save more, which will reverse the trend of a declining savings rate of recent years. The prosperity of any free enterprise economy is basically dependent on that nation's savings. The more of its income a nation saves, the more it can provide funds for investment in factories, equipment, housing, etc., which are the main sources of new jobs and additional income. The reverse is also true, as a reduced rate of savings over an extended period means a shortage of funds, higher interest rates, and economic stagnation with higher unemployment.

2. More Savings Is Anti-Inflationary: When citizens are given the opportunity to save more, they will be spending less on frills and low priority items. When the citizen becomes discriminating and selective in his spending habits, businesses will have to be careful as to how much they raise the prices of their products -- thus lowering the rate of inflation.

3. Reducing The Outflow Of Funds From The U.S.: The fear of high rates of inflation and the declining purchasing power of the family's savings have generated an unprecedented clamor on the part of many citizens to invest in silver as a commodity and silver coins, gold coins and gold stock, and in transferring savings to be converted into a foreign currency and deposited in European banks. While the tax exemption on interest from savings may not totally alleviate the problem of the outflow of funds, it would nevertheless dampen the incentive to transfer funds abroad on the part of many citizens.

4. The Tax Exemption Would Keep Interest Rates From Rising Dramatically: When interest rates are rising, the average saver would have less incentive to transfer his savings to another form of indebtedness, such as government securities, corporate bonds, commercial paper, etc. That is because the tax exempt feature on interest from savings will approximately compensate for the higher yields offered by these instruments. Thus, greater stability in savings would short-circuit the vicious cycle of interest rate escalation during a tight money market. Furthermore, only those with large amounts of savings can take advantage of higher rates on these instruments of indebtedness, and thus the tax exemption feature will compensate for such unequal opportunity of investment.

5. A Boom For Home Ownership: The incentive given to savers through the interest income tax exemption would encourage more savings in normal times, discourage outflow of savings in tight money markets, and would prevent interest cost from escalating within financial institutions. These features of more savings and stability of interest rate costs to financial institutions will generate a new boom for home buying and home ownership, similar to that in the fifties and early sixties.

6. Preventing Disintermediation: The dilemma of the major financial institutions (savings and loan associations, mutual savings banks, and commercial banks) in tight money markets has been that of disintermediation. That is, savings are drawn from these institutions to seek higher yields in the open market. This recurring phenomenon has been the cause of the drying up of mortgage funds and the skyrocketing of mortgage interest rates. The tax incentive recommendation would substantially reduce disintermediation and would lessen its ill effects on home buying, the monthly mortgage payment, the home building industry, and all sectors of the economy that are related to the housing industry.

And finally, the federal and local governments and their agencies -- in attempting to deal with disintermediation, high mortgage interest rates, outflow of funds and other related phenomena during tight money markets -- have necessarily imposed many regulations and rules that are counterproductive in the long run and have perpetuated a trend of interfering with the functions of the private enterprise system. The tax exemption would, on the whole, reduce the necessity of government interference in reacting to crises and deter over-regulation of the free market place.

WINNERS AND LOSERS

The foregoing discussion gives the impression that almost all the parties interested, as well as the economy as a whole, would benefit from a tax exemption on say the first $1,000 of interest paid on savings. These facts can hardly be disputed, with the exception that the U.S. Treasury Department would receive less revenue if such a tax exemption is enacted.

The Treasury Department estimates a loss in revenue of $1.8 billion, a fraction of 1% of the $300 billion annual total revenue of the U.S. Treasury. Yet, the benefit is obviously many times greater to all entities involved and to the overall economic and financial structure of this nation.

A tax law for exempting the first $1,000 of interest on savings from federal income tax is a very effective measure of an incentive for savings, fighting inflation, equality in taxing investment income, preventing the outflow of funds, stabilizing interest rates, preventing disintermediation, creating a boom in housing, and reducing the necessity of government interference and over-regulation of the already regulation-burdened economy.

This program deserves immediate action on the part of the Administration and the legislative body of this nation.

####

9/17/74
P.M.

JOAN OF ARC COMPANY
Canners of Fine Foods Since 1878

Turlock, California 95380
P. O. Drawer 1970
Telephone 209 • 634-0071

September 13, 1974

David W. Ferrel
Deputy Assistant Secretary
For Economic Affairs
U. S. DEPARTMENT OF COMMERCE
Washington, D.C.

Dear David:

As I address myself to the task of responding to your request of August 21st, I find myself at a loss to really lay hold of the problem. There are so many factors impinging on the economic problems of today that to find a solution is like fighting a bag of feathers. Nevertheless, the following are a few thoughts I shall share with you:

(1) One of the contributing factors to today's high prices is the cost of meeting innumerable restrictive, and often needless government regulations. Business is over regulated. The normal controls of supply and demand, and other natural economic controls are contravened by a mass of conflicting government regulations imposed by ill-advised and often incompetent legislators and administrators. It would be most interesting and I believe shocking to the consumer if the cost of these controls could be identified in dollars and cents on the price tags of all items sold in the retail trade.

(2) Industry is saddled with an ever increasing burden of non-productive labor occasioned by the aforementioned controls and regulations and the record keeping involved therewith. Productivity goes down when it most needs to go up.

(3) Government protection of unions has placed industry in such a position that it has little alternative other than to bow to union demands not only in regard to pay, but also with respect to working conditions and management policy, etc. or go out of business.

(4) For your information the following schedule shows some of the cost increases incurred by the canning industry in 1974:

ELEMENT OF COST	% INCREASE OVER 1973
Labor	11%
Raw Product Price to Farmer	
Apricots	50
Peaches	37
Yams	23
Tomatoes	100
Cans	50
Sugar	300
Fuel, Power & Water	20
Interest	25
Other Supplies	25

The above covers the major portion of the cost of the finished product. By comparison, the selling price of 24/2½ choice halves and sliced YC peaches (a major item of the fruit pack) has increased approximately 25% from last year's controlled price.

(5) Wage and price controls have pushed the normal "line" of products out of the normal patterns so that critical shortages of critical and essential parts and material are showing up throughout the entire industry. For example -- there is a critical shortage of tinplate to the extent that some crop loss may be experienced. We have faced shortages of such diverse items as chlorine, corn syrup, and machine parts.

(6) It was possible at one time to plan and project operations with some degree of accuracy. Today's bewildering conditions make intelligent planning extremely difficult. There are so many imponderable variables being introduced on the scene almost daily.

The above are a few of the problems that confront this industry. We are asked on the one hand for greater production to meet increased worldwide demand for food and confronted on the other hand with a mass of problems created by government meddling.

I hope this information will be of some use to you. If you are interested in more details, please let me know.

Best wishes for your continued success.

Regards,

Thomas D. Birchall

TDB/dag

INFLATION: CAUSES AND OPTIONS

by

Michael Boretsky
assisted by
Robert McKibben

Office of Policy Development
Office of the Secretary
U.S. Department of Commerce

September 1974

INFLATION: CAUSES AND OPTIONS

by
Michael Boretsky
assisted by
Robert McKibben

INTRODUCTION

President Ford's decision to hold a public "summit" conference on how to combat inflation offers immense opportunities to make a genuine break-through in the fight against the nation's enemy #1, but, as most of us now realize, it is not free of potential calamity.

In order to be successful, the conference must be preceded by careful study and planning as to what the Government--at a minimum--must achieve with the conference and how. Failing to do this might mean an immense set-back to the nation's hopes to squash the enemy, the President, and even to the world.

In a hope to contribute something to the efficacy of this study and planning, we have attempted to diagnose this inflation in terms of the apparent composite economic forces at work, the generic forces that affect these economic forces, and to identify a fairly comprehensive list of policy options that might be used in an attempt to cope with the problem.

The rationale for our attempt to identify the generic forces at work and the respective policy options is the same as that of medical doctors who generally try to identify the true or generic cause of a patient's disease and treat him accordingly, if they can, rather than treating the symptoms; treatment of a disease via symptoms is always a matter of chance.

The results of our analysis, set forth as succinctly as possible, are presented in the attached Synopsis of the Principal Forces Behind the Current Inflation and Available Policy Options. A number of propositions made in this synoposis, especially on points which we feel are not generally known or properly understood, are amplified with additional information contained in Appendices A through L.

In broad terms, the message this analysis conveys is sixfold:

1. As some of the people who participated in the economists' "pre-summit" have said, there is no "silver" bullet that could kill this inflation.

2. Most of the generic forces that have caused this inflation are either long-term or prospectively long-term, and the only way this inflation could be brought under reasonable control (reduced to a tolerable rate) is through a reversal or at least mitigation of the impact of these long-term forces.

3. Needless to say, whatever takes a long time to develop, it usually takes a long time to be undone. This implies that the current inflationary spiral is likely to be with us for a long time even if we take seriously the immediate action. The longer we put off doing the right things the longer this inflation will be with us, and, the worse repercussions it will have on the economy

4. The only way we could speed up the date when this inflation is under reasonable control is by adopting, in addition to long-term measures listed in the synopsis, a sensible wage--price--profit--and interest rate guidelines to which all major vested-interest-income--groups of the society will consent and reasonably adhere to. An outline of how a guideline might be formulated is set forth in option *1-3.005. The "summit" conference offers an almost ideal opportunity to secure a public (vested interest groups') consensus on such or similar guidelines. The conference will be a huge success if it achieved such a consensus and nothing more.

5. Any attempt to achieve the speed-up in the control of this inflation by means of another wage and price freeze or some other mandatory wage-price controls, as many advocate, would undoubtedly meet with failure, and most probably, prove to be a calamity (see Item 1-3.0003 of the synopsis).

6. The long list of policy measures to counter the generic forces at work deemed essential for an effective fight of inflation (options marked with asterisk on pp. 4-13) would also make the economy a lot stronger and the society a lot better off than it is today, and there are no shortcuts to achieve either of the two objectives.

The alternative to pursuing all of the recommended policies is, obviously, doing nothing, or, as some of the "old-religion" type of analysts and policy advisers recommended, to let this inflation run its "natural" course and burn itself out, as many of them did in the past.

Prior to undertaking our analysis we crudely tested the merit of this recommendation. For the purpose of this test we "fitted" indices of the GNP deflator into the simple exponential growth formula, on one hand, and into three S-shape curve formulas ("modified exponential," Gompertz, and logistic), on another. The three S-shape curves have the capability of discerning the deceleration if it is present in the series. The "fits" indicate that if the index of GNP deflator for 1965-1974 continued to increase along the path of a simple exponential curve, by 1980 it would be about 32 percent higher than in 1974; but if it continued to increase along the path of the three S-shaped curves, by 1980 it would be between 42 and 46 percent higher than in 1974. This implies that any hope for inflation to burn itself out in the near future is wishful thinking and the policy recommendation of doing nothing would be, to use Arthur Burns' phrase, a policy of peril to the American socio-economic system. Indeed, additional inflation by some 45 percent or so in just 5 or 6 years would not only make some 20 million or so "fixed-income" retirees virtual beggars, but also make large numbers of "Middle America" living on "semi-fixed" income, most notably university professors, all kinds of social workers and clergy, near-paupers. Long before the time this would be statistically demonstratable, the disintegration process of the American socio-economic system would be well underway. The current inflation is clearly out of control of the system. The system that does not control such events cannot survive.

SYNPOSIS

A SYNOPSIS
OF PRINCIPAL FORCES BEHIND THE CURRENT INFLATION
AND AVAILABLE POLICY OPTIONS

A. FORCE BEHIND THE INFLATION	B. ECONOMIC PHENOMENA THROUGH WHICH THE FORCE OPERATES	C. POLICY OPTIONS TO COUNTER THE ADVERSE FORCE	
		OPTIONS (* denotes options deemed essential for early adoption)	COMMENTS
I. COMPOSITE (SYNTHESIS OF) FORCES CURRENTLY AT WORK			
1. Spirailing labor and non-labor costs of production of goods and services (App A, Table A-1) 2. Decline in labor's real wages per unit of time worked (App A, Table A-2) 3. Management's expectation of further acceleration in the rate of inflation (App A, Table A-3)	1-3.01. Organized labor's belligerent posture in new Labor-Management negotiations and Management's price increases in excess of cost increases up to the time of new L-M negotiations and/or price revisions as an hedge against a decline in the return on capital and/or in order to secure an adequate flow of internal "investible" funds.	1-3.001. Drastic cuts in the Federal budget	The focus should be not only on the Federal budget, but on the aggregated budget of all governments (Federal, state and local). Though in most of the years since World War II this aggregated budget was in the red, and this was an important cause (but far from the only one) of the rise of inflation over the years, we cannot reverse past history with present actions. For the issue at hand, the important fact is that in 1973 the budget of all governments had a sizeable surplus and a small surplus seems to be underway for 1974 (App. K). The primary effect of a drastic or, for that matter, any reduction in the Federal budget would, therefore, be increased unemployment (each $1 billion of expenditures commands some 65 thousand jobs for a year) rather than a reduction of inflation.
		1-3.002. Further tightening of the supply of money (credit) by the Federal Reserve Board (FRB)	In view of an already tight credit situation, and ample symptons of approaching "liquidity crunch," a further tightening of credit might easily plunge the economy into a serious recession, and a wave of bankruptcies, with little, if any, effect on inflation (a deep recession might, of course, curtail inflation eventually, and perhaps significantly, but this would hardly be a sensible way to curb the inflation).

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		1-3.003. A new wage and price freeze until the inflationary psychology "cools" off.	Practically all (pp. 4-13) generic forces behind this inflation are either long-term or prospectively long-term. The freeze would, therefore, postpone rather than eliminate the pressure of these forces. Whenever the freeze would be lifted, and eventually it would have to be, the accumulated momentum of the generic pressures could produce the kind of inflation as Germany experienced after World War I. Before then the country could experience thousands of major bankruptcies and other calamities.
		1-3.004. A new economy-wide single figure wage-price guideline similar to the 3.2% in the Kennedy-Johnson Administrations or 5.5% under Phases II and III of the Nixon's New Economic Policy.	Too rigid and, in all probability, there is no single figure of this nature on which Labor and Management would agree and/or adhere to.
		*1-3.005. A new voluntary wage-price-, profit-, and interest-rate guideline **to be secured** in the process of the Presidential Summit Meetings and to be at least "PR"-wise binding for all new Labor-Management contract negotiations, new price and interest-rate revisions, and new wage increases stipulated in previous L-M contracts in all sectors of the economy, including the government, which might allow: (a) Wage increases up to, e.g., 75% of the increase justifiable or earlier negotiated on grounds of changes in productivity, cost of living and fringe-benefit adjustment (for a faster curtailment of the rate of inflation, one might try to get a consensus on, e.g.,	In view of the actual or prospective long-termness and the profoundness of most of the generic forces that have produced this inflation (pp. 4-13), it would be naive to expect that any voluntary guideline, without bold policy measures countering the generic forces at work, could reduce this inflation to a tolerable rate. The guideline of this nature, however, would probably produce some tangible results, and rather quickly, the "burden" of the fight against this "public enemy #1" would be distributed more or less equitably throughout all the principal vested-interest income groups of the society (hence, the guideline might be called a policy of proportional national sacrifice for the sake of future income stability and

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		67%, the percentage the government reportedly contemplated to grant civil servants in October. (b) Price and interest-rate revisions yielding returns on stockholders' equity or similarly defined net worth of property owners not exceeding, e.g., 85% or 90% of that realized in 1973 (for a faster curtailment of the rate of inflation, not exceeding 75% or 80%, consistent with 67% limit in wage increases). The cardinal prerequisite for viability of such guidelines (and obtaining national consensus thereon) is an equitable distribution of the private burden (sacrifice) without arresting the real growth of the economy. The latter presupposes a relatively smaller reduction of that portion of profits that is devoted to investment - in recognition of the progressively growing capital requirements for the expansion of productive capacity (see item 9 below and Appendices G and H). The monitoring of the adherence to such guidelines would obviously also require a consensus on some standards as to how profits should be calculated, both in the benchmark year and the subsequent periods.	stability of the American socio-economic system) and, in all probability, it would not be detrimental to the potential real growth of the economy since the guideline returns on capital and, hence, the relative flow of investible funds would be relatively higher than the guideline increases for wages and, hence, consumption. Chances are that in the environment of the society's current attitude to President Ford the Summit might agree on such a guideline, if the planning and the initiative in this direction is properly orchestrated. Needless to say, a guideline of this sort is also a sine qua non of the potential efficacy and usefulness of the new Council on Wage and Price Stability.

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II. GENERIC FORCES 4. Actual or latent shortages of domestically produced products: (a) Food products	4a.01. Price increases much above average in the economy and very much in excess of cost increases	*4a.001. Initiate the conversion of available but presently uncultivatable land into cultivatable cropland. In all probability, the bulk of this conversion will require large capital outlays, most probably beyond agriculture's willingness or ability to finance. Should this be the case, the government must assist the farmers with special tax credits or equivalent cash payments, or even directly undertake the conversion projects. *4a.002. Department of Agriculture must start planning and developing technology for the gradual shift of U.S. agriculture from prevailingly extensive to prevailingly intensive without upsetting the ecological balance and thus destroying the habitability of the country for centuries to come *4a.003. Initiate meaningful R&D programs that would soon lead to full-fledged oceanogronomy. *4a.004. Rebuild the national reserves of all basic food products. *4a.005. Develop a comprehensive national policy and system of equitable distribution of domestic food products between the domestic market, on one hand, and export and domestic reserves, on the other.	The basis of practically all our and the world's food products are grains and other crops. From 1970 to 1973, our farms' output of all crops increased by an unprecedented 20% or so, and this greatly alleviated but did not eliminate the food shortages, both at home and abroad (App B). The farms achieved this huge increase in output by progressively increasing cultivation of readily arable crop land previously in the set-aside programs, increased use of yield-increasing fertilizers and insecticides, and good weather. By now the reserves of readily cultivatable crop land have been practically exhausted so that the future growth of our crop output can come only from the cultivation of presently unusable land, of which we have some 50 to 100 million acres (apart from outright deserts), a further intensification of agricultural technology (in the past, with no pollution control, growth in yields per acre averaged about 2% per year), and a better than average weather. With the latter being unpredictable, and facing the kind of growth in domestic and foreign demand as we have every reason to expect, the only way we can prevent the current shortages and inflationary pressures in this product area from becoming a long-term nightmare is by vigorously pursuing the stated policies.

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(b) Oil and natural gas	4b.01 Same as 4a.01	*4b.001. Promulgate a comprehensive set of mandatory regulations and/or equivalent tax incentives aimed at maximum possible conservation of petroleum products in uses where coal can be used (e.g., electric power generator) or where there is a wide range of alternatives (e.g., use of passenger automobiles with various sizes of engines or horsepower ratings).	By now we seem to be well underway back to the pre-energy-crisis 70 MPH plus speeds on the highway and "full-size" automobile as our standards of preference.
		*4b.002. Speed up the development of deep well drilling technology and of an optimum technology of desulphorization and other "cleaning" of coal before its use in burners.	Large discoveries of new domestic deposits of oil and/or natural gas is the surest if not the only route to bring down prices not only of domestic oil, but also of foreign oil, and the latter might be the only way to preserve the present international economic system. The U.S. is the only country that might have the potentiality to do that.
		*4b.003. Initiate a maximum feasible increase in the exploration of domestic deposits of oil and natural gas by replacing the general "depletion allowances" with a system of specific tax incentives (credits) and/or equivalent cash payments for exploration and development of new oil and natural gas deposits, and using the authority of the Defense Production Act to assure timely supply of necessary drilling tools and equipment, more liberal leasing of governmental lands, and, if necessary, even directly participating in the exploration of risky areas of potential deposits.	To achieve the kind of independence in domestic supply of energy as is currently being contemplated (reduction of total dependence on foreign oil from the present 40% to 15%, and on a single supplier for no more than 5%) by 1985 or thereabout would require about $1 trillion worth of investment above what the economy will have to invest by that time. To do this the society would thus have to increase its total saving (and investment) ratio from about 15% of GNP in 1972, and which varied very little over the last 50 years, to about 27% in 1985. The only way such an increase could be achieved is through forced saving, meaning either through drastically increased taxes or through galloping inflation with the bulk of the proceeds going to the energy-related companies - neither a viable route in our socio-economic system.
		*4b.004. Speed up, consistently with non-inflationary use of national resources, the development of alternative sources of energy by giving initially the highest priority to the potentially cheapest and relatively quickest to develop (solar and geothermal) rather than the other way around.	

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(c) Other raw materials	4c.01. Same as 4a.01	*4c.001. Design and institute policies fostering conservation recycling and otherwise increased efficiency in use of all exhaustible mineral resources. *4c.002. Initiate a substantial intensification in exploration and development of domestic deposits of mineral resources by replacing the general "depletion allowances" with a system of specific tax incentives (credits) and/or equivalent cash payments tied directly to these activities, and the government's direct participation in the exploration for minerals in acutely short supply in the western world and/or essential for national security. *4c.003. Reinstitute national stockpiles of mineral raw materials of actual or latent short supply. *4c.004, Develop a comprehensive policy and system for the equitable distribution of domestic-origin raw materials of actual or latent short supply between the domestic consumption, on one hand, and export and domestic stockpiles on the other.	In 1973, of 67 minerals other than coal, oil and natural gas and widely used in industry the U.S. extensively relied on imports for 25. The U.S. minimum cumulative demand through the year 2000 for the 26 important mineral resources vis-a-vis its identified and hypothetical resources is shown in Appendix C.
5. Import of inflation from abroad caused by: (a) Shortages of food	5a.01. Escalating prices of food products imported by the U.S. 5a.02. Escalating foreign demand and, hence upward pressure on prices of U.S. products	*5a.001. Take a more stringent matter-of-fact approach toward international programs of population control *5a.002. Initiate an expansion of international R&D programs that would lead to the development of greater numbers of efficient hybrids of grains and other staples suitable for cultivation in specific climatic and soil-quality	

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		conditions (à la the rice that produced the "Green Revolution"). *5a.003. Initiate an intensification of international R&D programs for a quick development of efficient water-desalinization technology. *5a.004. Initiate international rationalization of ocean fishing and development of international system of "oceanogromy." *5a.005. Rebuild a strong stockpile capability for traditional U.S. food relief programs in case of wide-spread famines.	
(b) Latent world-wide shortage of oil	5b.01 Quadrupling of prices of foreign oil in less than a year and the upward pressure on prices of domestic oil	*5b.001. Intensify effort toward long-term peace in the Middle East *5b.002. Strengthen U.S. independent geopolitical presence in the Middle East *5b.003. Negotiate with Iran, Indonesia and, perhaps, Nigeria reasonably generous long-term political and economic-development agreements for substantial price concessions and long-term deliveries of oil to the U.S. which could be used as a price precedent in subsequent negotiation and dealings with the Arab and other oil producing countries. *5b.004. Build up large stockpiles of crude oil and key refined products to prevent another sudden actual or potential shortfall in total supply to domestic market and, thus, another wave of sky-rocketing prices.	There seem to be quite a few people who argue as to whether the latent shortages or the Arabs' decision to use oil as a strategic weapon against Israel was the critical factor in the price increases. The latter was obviously the trigger element, but the former is undoubtedly the thing that made it possible. At the end of 1973, the free world's "proven" reserves of oil amounted to about 522 billion barrels - sufficient for about 31 years at current production rates, and for only 15 years if the current rate of growth in the free world's demand for oil were to continue. Assuming that total recoverable reserves are four times as large as the "proven" reserves, the world-wide demand for oil growing at the recent rates would exhaust all recoverable reserves in about 60 years. Considering this time span against the millenia of the world's industrial activity and the fact that most of the world's current technology is heavily oil-oriented as well as that this technology is, for all practical purposes, fixed for some 40 to 50 years hence,

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			the sharp price increases in the last year or so could hardly have been held back for too long. As for the future, the only thing we could realistically do is to try to prevent further drastic increases and while doing this pray that this effort will be successful.
(c) Actual and/or latent shortages of mineral resources other than oil, and other raw materials	5c.01. Sky-rocketing prices of products imported by the U.S. and an upward pressure of foreign demand on U.S. prices of competitive products.	*5c.001. Negotiate agreements with all foreign governments controlling the supply of raw materials of actually or latently short supply with respect to long-term deliveries and prices to the U.S. within the framework of which private companies would operate	In 1973, of the 67 minerals referred to in policy option 4c.001 the non-communist world's proven reserves of 11 minerals were sufficient for only up to 50 years, of 7 minerals for 50 to 100 years, and only of 49 minerals the proven reserves were sufficient for more than 100 years. New discoveries will undoubtedly stretch out the availability of most of these resources, but here too, the acute shortages and high prices are most probably what is in store for the future.
(d) Inability of foreign governments to control their inflation	5d.01. Increasing cost of all imports, especially those for which U.S. demand with respect to price is inelastic	*5d.001. Make floating exchange rates a permanent feature of the international monetary system.	
6. Intensification in the country's effort to control and/or improve the quality of the physical environment (Appendix D)	6.01. Increase in the cost of production above the increase in historically defined cost plus new demand for capital funds and, hence, an upward pressure on interest rates.	*6.001. Stretch out the time table of the government protection goals set forth in the existing laws and put off the enactment of new laws until the current inflation is reduced to a "tolerable" rate. *6.002. EPA to use the "put-off" time for developing better antipollution technologies than presently available.	As noted in Appendix D, there are estimates to the effect that the water quality standards for mid-80's set in the current laws already would require up to $350 billion of additional investments by that time. This, plus "Project Independence," as now contemplated (see comment on *4b.002), plus the normal flow of investment would require society's total saving ratio to increase by 1985 or thereabout to well over 30% of GNP, from an historical 15% or so, which, in our present socio-economic system, is simply impossible.
7. Labor's, at least parts of it, continued expectation of growth in real wages irrespective	7.01. Frequent demands and strikes for wage and salary increases in excess of productivity increases -	*7.001. Department of Labor to periodically issue publications enlightening labor that the only basis for sustained growth in real wages is growth in productivity.	

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of productivity performance	historically the primary cause of the cost-push "inflation"	*7.002. Obtain legislation authorizing the Federal Mediation and Conciliation Service to compulsorily arbitrate Labor-Management disputes where wage demands are at gross variance with productivity performance.	
8. Growing internationalization of U.S. capital markets (Appendix E)	8.01. Increasing demand for U.S.-origin investible funds and, hence, a growing upward pressure on domestic interest rates.		
9. Decline in the country's rate of civilian-economy-oriented technological progress relative to its own past and relative to the current rate of progress of most other industrialized countries (Appendices F,G,H and I)	9.01. Decline in the rate of growth of labor productivity in the 1965-74 period by some 30 to 50 percent compared with the earlier long-term average (1870-1965) which, coupled with progressively rising money wages, yields progressively growing unit labor costs and, hence, intensifies the upward pressure on prices. 9.02. Decline in capital productivity resulting in growing capital requirements per unit of additional	*9.001. Institute meaningful tax incentives and equivalent cash payment (for those having no tax liability) for incremental R&D (above a certain base level, e.g. 1973 or 1974) aiming at technological innovations which would either save labor (enhance labor productivity), save capital (enhance capital productivity), save materials, develop new substitutes for raw materials of actual or potential short supply, save energy, or develop new processes and/or products permitting to do things impossible or impractical before *9.002. Increase direct public investment in R&D for purpose of improving technology of social infra-structure (transportation, communications and public utilities), technology of sectors of direct relevance to society's "quality of life", and in civilian-market-oriented technological opportunities of private industry where for various reasons (such as industry fragmentation, excessive risk, project too large for a single private investor, etc.) the market	Option *9.001 would require substantial losses of revenue to the Treasury and option *9.002 would require substantial budgetary outlays, and the two together would add a significant strain on the budget. To avoid this, consideration should be given to the expediency of substituting these two options for the 7% general investment tax credit which seems to be far from an optimum policy (in a sense of an efficient tool for productivity growth. See Appendix G, Tables 3 and 4 and pp. 13 and 14). Chances are that such a substitution might in the long run not only produce better results, but save money for Government and the society.

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	capacity, progressively growing pressure on demand for investible funds, and, hence, progressively growing upward pressure on interest rates 9.03. Decline in the industry's direct technological advantage in foreign trade (other than that working through productivity and prices) which significantly contributed to the deterioration in U.S. trade and balance of payments, devaluation of the dollar, and the drastic deterioration in U.S. "terms of trade" and, through that, by making the dollar cost of imports "jump" because of devaluation, to U.S. inflation.	forces and general incentives (option 9.001) cannot assure an adequate private investment (society would forego the benefits thereof which might amount to a great multiple of the total cost). *9.003. Modify and/or eliminate governmental laws and regulations hampering technological innovations (especially the maze of building and housing standards and regulations in the transportation sector). *9.004. Reverse the trend of "withering" patent protection in the country. *9.005. Improve the governmental procurement policy that would enhance a faster diffusion of efficient new technology. *9.006. Develop adequate and rational safeguards against the illuse of new technology without stifling controls. *9.007. Institute a system of "enlightened" publications that would inform the public about the social consequences of major technological innovations, both beneficial and not so beneficial, and the available alternatives. Such publications would probably tend to lessen public anxiety and resentment against the diffusion of some new technology without which the country's progress might be arrested. *9.008. Develop a system of incentives that would increase society's "propensity" to save and thus increase the flow of investible funds, especially the availability of "venture" capital without which technological progress in a market economy cannot thrive. For that purpose, e.g., IRS might change its rules and treat interest income on savings as a capital	

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		gain rather than ordinary income.	
10. Liberal and practically one sided export of advanced U.S. manufacturing technology in a "naked" form (sale of patents, licenses etc. rather than the export of products embodying this technology) usable in foreign economic activities competitive with activities in the U.S., such as the manufacture of internationally traded goods (Appendix G, pp. 17-23)	10.01. Substitution of foreign production for domestic production and the export of commodities embodying the technology in question - a critical factor in the deterioration of U.S. trade and balance of payments, devaluation of the dollar and deterioration of U.S. "terms of trade" (hence, increase in the dollar cost of all imports).	10.001. Make all "naked" transfers of such technology subject to approval of the government in the light of the national economic interest. 10.002. Impose a national-economic-disadvantage equalization tax on all such transfers. 10.003. Write into the law authorizing the R&D tax incentives scheme (option 9.001) a provision disallowing "naked" export of the know-how developed under the auspices of this incentive scheme or otherwise supported by the public funds for a period of 7 years after the commercialization of the know-how in the United States.	
11. Growing divergence between the occupational and skill mix of new entrants to the labor market produced by the professional and para-professional institutions of learning and the mix needed by the economy	11.01. Some occupations and/or specific skills are increasingly becoming in short supply even in times of fairly low economic activity and some remain unemployable even in an "overheated" economy; the result is a gradual shift of the "Philip's curve" to the right.	*11.001. Institute a program of periodic studies by the U.S. Office of Education of the consistency of the professional para-professional learning institutions curricula and facilities and the economy's needs in this regard which could serve as guides for the institutions' planning of the curricula facilities and departmental level of activity. *11.002. Expand and otherwise strengthen the Labor Department's apprenticeship, occupational outlook, and occupational retraining programs.	

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12. Technical deficiency of Federal budget-making mechanism (chronic overestimates of revenues and underestimates of expenditures yielding budget deficits even at practically full employment.)	12.01. Almost continuous pumping inflation-generating purchasing power into the economy. Fortunately, in recent years the impact of the Federal deficits have been mitigated by surpluses of state and local governments. In 1973, the state and local governments'surplus actually "over offset" the Federal deficit of $3.4 billion and the same might happen in 1974. See Appendix K.	*12.001. Improve the technical side of the current budget preparation and thus minimize the inflationary pressures of the government budget on the economy.	The use of a more realistic assumption regarding the potential productivity growth in the private economy than the obsolete long-term average which is apparently being used might do a lot in this direction.
13. "Easy" money policy of the Federal Reserve System (FRS)	13.01. Tendency to reinforce other adverse forces by overstimulating demand for both, inputs and outputs of the economy		In 1971 and 1972, despite the increasing inflation rate, the FRS reversed its increasingly tighter money policy which it pursued from 1966 to 1970, but since about the middle of 1973 it appears to be doing everything it can to dampen inflation without pushing the economy into a liquidity "crunch" and a deep recession (App. L).

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14. Short-run (ad hoc) nature of the government's economic policy making mechanism	14.01. Focus on symptoms rather than the genuine forces shaping developments in the economy and in doing so frequently committing policy errors which have added to the adverse forces at work (e.g. the 1965-66 failure to raise taxes to finance the Vietnam War, the 1972 Russian grain "deal", and the abandonment of the Phase II controls after a month or so of seeming deceleration in the rate of inflation)	*14.001. Reshape the current principal economic policy making mechanism (CEA) as a strictly short term business cycle policy advisory mechanism, responsible directly to the President. *14.002. Creation of a brand new statutory long-term economic and technology policy planning mechanism reporting to the Cabinet Committee on Economic Policy, chaired by the President and responsible for: (a) Policies assuring the adequate supply of energy and other raw materials from both domestic and foreign sources of supply for at least 25 years hence; (b) A reasonably comprehensive technological policy of the country, including related manpower skill-education policy, and the domestic vis-a-vis foreign use of U.S. technology and for at least 20 years hence; (c) Act as an ultimate (unbiased) arbiter on the rate and direction of environmental protection programs; (d) Reasonably long-term policies assuring adequate capital availability for the economy's domestic needs; and (e) An independent from the formal budgetary mechanism advise on the budgetary options and necessary planning of the government for at least 10 years hence.	

APPENDIX A

COSTS AND PRODUCTIVITY

TABLE A-1. CHANGES IN PRODUCTIVITY AND COSTS IN THE PRIVATE ECONOMY, 1970-1974

Item	Percent Change from Previous Year									
					1973				1974	
	1970	1971	1972	1973	I	II	III	IV	I	II
Output per man-hour	1.0	4.1	3.8	2.9	5.3	3.5	2.1	0.8	-2.6	-2.0
Compensation per man-hour	7.6	7.0	6.8	8.0	7.9	7.8	8.0	8.2	6.6	8.5
Unit labor cost	6.5	2.8	2.9	5.0	2.4	4.2	5.7	7.4	9.4	10.8
Unit nonlabor payments	2.4	5.6	2.8	7.0	5.5	6.4	7.7	8.4	9.5	8.3
Hourly compensation in 1967 dollars	1.0	3.5	3.5	1.4	3.7	2.2	1.0	-0.2	-3.0	-2.0

Source: U.S. Bureau of Labor Statistics

TABLE A-2. CONSUMER AND WHOLESALE PRICE CHANGES FOR SELECTED ITEMS: 1970-1974

Item	Percent Change From Previous Year					
	1970	1971	1972	1973	1974 March	1974 June
Consumer Prices						
All Commodities	4.7	3.4	2.9	7.4	11.8	12.2
Wholesale Prices						
All Commodities	3.6	3.1	4.5	13.7	19.1	13.9
Manufactured Goods	3.7	3.2	3.6	9.5	14.2	16.4
Industrial Commodities	3.7	3.6	3.4	7.7	16.1	21.0

Source: U.S. Bureau of Labor Statistics

TABLE A-3. EXPECTED VERSUS ACTUAL CHANGES IN PRICES OF CAPITAL GOODS AND OTHER PRODUCTS, 1971-1974

(Percent Change from Prior Year)

Reporters	1971		1972		1973		1974	
	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual
Purchasers of capital goods, all industries	6.9	7.0	5.4	5.9	5.7	8.1	8.8	NA
--Durables goods industries	6.6	7.0	5.2	5.7	5.6	7.4	8.0	NA
--Nondurable goods industries	7.3	7.1	5.6	6.1	5.8	8.8	9.5	NA
Purchasers of manufactured goods	3.9	3.0	2.8	2.3	2.3	5.6	5.2	NA
Purchasers of services of public utilities	4.8	5.7	5.8	5.7	4.5	6.9	7.7	NA

Source: Bureau of Economic Analysis
Expected prices: BEA November-December survey of preceding year

APPENDIX B

SELECTED AGRICULTURAL STATISTICS

APPENDIX B. SELECTED STATISTICS BEARING ON AGGREGATE SUPPLY, DEMAND AND WHOLESALE PRICES OF AGRICULTURAL PRODUCTS IN THE U.S.: 1973 COMPARED WITH 1965 AND 1970-1972

Item	1965	1970	1971	1972	1973
I. Key Values In Current Prices and Wholesale Price Indexes:					
1. Total value of marketed domestic farm products (equals the cash receipts of farmers from marketings), $ billion	39.3	50.5	53.1	58.0	80.9
2. Exports of farm products, $ billion	6.2	7.2	7.7	9.4	17.1[a]
3. Addition to (+) or subtraction from (-) inventories, including stockpiles, $ billion	+0.5	-1.4	+1.1	-0.6	...
4. Imports of agricultural products, $ billion	4.1	5.8	5.8	6.5	8.2[a]
5. Apparent supply to domestic market,[b] $ billion	36.7	50.5	50.1	55.7	72.0
5a. Ditto, per capita of population, $	188.9	246.5	242.0	266.7	342.0
6. Wholesale price index of farm products, 1967 = 100	98.7	111.0	112.9	125.0	167.5[a]
II. Key Values in 1967 Prices:					
7. Total value of marketed domestic farm products, $ billion	39.8	45.5	47.0	46.4	48.3
8. Exports of farm products, $ billion	6.3	6.5	6.8	7.5	10.2
9. Addition to (+) or subtraction from (-) inventories, including stockpiles, $ billion	+0.6	-1.3	+1.0	-0.5	...
10. Apparent supply to domestic market,[b] $ billion	37.1	45.6	44.2	44.7	43.0
10a. Ditto, per capita of population, $	190.9	222.6	213.5	214.0	204.2
10b. Apparent trend in per capita domestic demand,[c] $	190.9	210.0	213.5	217.6	221.7
III. Selected Ratios:					
11. Real growth of domestic output of market products from preceding year, percent	1.3	3.2	3.3	-1.3	4.0
12. Exports as a percent of the total value of marketed domestic products	12.3	14.3	14.5	16.2	21.1
12a. Growth in exports in current prices from preceding year, percent	-1.9	22.1	6.2	22.1	82.0
12b. Real growth of exports from preceding year, percent	-1.6	20.4	4.6	10.3	36.0
13. Real growth of apparent supply to domestic market[b] from preceding year, percent	+2.2	+2.1	+2.5	-2.6	-2.5
13a. Ditto, per capita of population	+0.9	+1.0	+1.4	-3.5	-3.3
14. Ratio of apparent per capita supply to domestic market in 1967 prices (Item 10a) to apparent per capita demand implicit in the 1965-1971 trend (Item 10b)[d]	1.00	1.06	1.00	0.98	0.92
15. Growth in wholesale price index from preceding year, percent	+4.3	+1.7	+1.7	+10.7	+34.0[a]

APPENDIX B. SELECTED STATISTICS BEARING ON AGGREGATE SUPPLY, DEMAND AND WHOLESALE PRICES OF AGRICULTURAL PRODUCTS IN THE U.S.: 1973 COMPARED WITH 1965 AND 1970-1972--Cont.

Connotates nil (either addition or subtration)

a/ Estimated by applying the ratio of January-June 1973 over January-June 1972 to the respective value or index for 1972.

b/ Total value of marketed domestic products plus imports minus exports, plus subtraction from or minus addition to the stockpiles. In estimating this series in 1967 prices (Items 9 and 9a) it is assumed that the prices of imports changed the same way as domestic prices which is not necessarily true. The resulting errors in the respective totals, if any, however, cannot be too great since imports in current prices represented only 11 to 12 percent of the total supply.

c/ Least square line fitted to the 1965-1971 data, yielding growth rate of 1.9 percent per year.

d/ This figure (1.00 minus the posted ratio) indicates a probable deficiency of supply to domestic market in terms of a percent of the demand.

Sources of the Data in Section I.

Item 1. For 1965-1972, U.S. Department of Agriculture, as reported in the Economic Report of the President, 1973, Table C-81, p. 287. The estimate for 1973, $80.9 Billion, is based on the Department's projection of the real growth of total agricultural output in 1973 over 1972 (4 percent) plus price increases of 34 percent (Item 5).

Items 2 and 4. U.S. Department of Commerce, Bureau of the Census (consistent with Tables 5, 6 and 9).

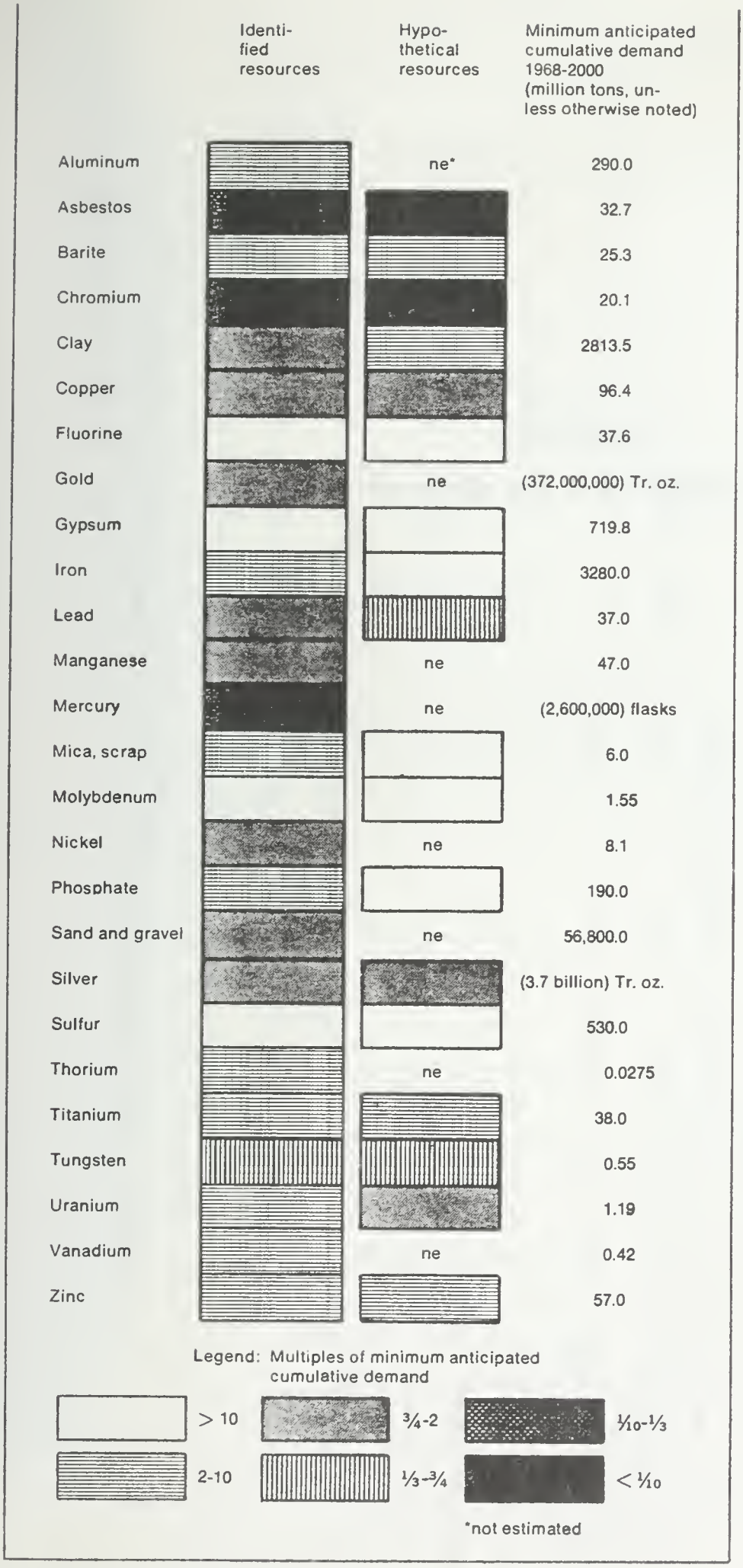
Item 3. U.S. Department of Agriculture, Economic Research Service.

Item 4 and 4a. See note (b) above. The 1973 per capita supply assumes U.S. population in 1973 to be about 210.5 million (the figure supplied by the Bureau of the Census).

Item 5. U.S. Department of Labor, Bureau of Labor Statistics.

APPENDIX C

POTENTIAL U.S. RESOURCES OF SOME IMPORTANT MINERALS RELATIVE TO DEMAND



Potential U.S. resources of some important minerals in relation to minimum anticipated cumulative demand to the year 2000. Identified resources include reserves and other deposits that may be exploitable under more favorable economic conditions or with improvements in technology. Hypothetical resources are undiscovered but geologically predictable materials. (Source: U.S. Geological Survey Professional Paper 820, 1973.)

APPENDIX D

CAPITAL EXPENDITURES FOR POLLUTION CONTROL

APPENDIX D. CAPITAL EXPENDITURES BY BUSINESS FOR AIR AND WATER POLLUTION ABATEMENT
1973 and 1974

$ Million

Industry	1973 Air	1973 Water	1973 Total	1973 Total As % of Gross Product (Value Added Originated)	1973 Total As % of Total Capital Expenditures	1974 Air	1974 Water	1974 Total	1974 Total As % of Gross Product	1974 Total As % of Total Capital Expenditures
Mining	41	50	91	0.5	3.3	5	47	100	NA	3.2
Manufacturing	2,050	1,103	3,153	1.0	8.3	2,929	1,514	4,446	NA	10.0
Transportation	23	20	42	0.1	0.7	1	28	45	NA	0.7
Public Utilities	921	530	1,451	4.9	7.6	1,179	518	1,696	NA	7.7
Other Industries except Agriculture	142	58	201	...	0.6	170	87	256	NA	0.7
ALL INDUSTRIES EXCEPT AGRICULTURE	3,176	1,762[a]	4,938	0.5	4.9	4,346	2,929[a]	6,543	NA	5.8

Note: Detail may differ from totals because of independent rounding.

Source: Bureau of Economic Analysis

[a] On September 7, 1974, the Washington Post reported that the Environmental Protection Agency sent to Congress, as required by law, the States' estimate that they will need some $350 billion for facilities to meet the 1983 clean-water goals. The story also reported that EPA is of the opinion that these estimates may be exaggerated. EPA plans to submit a final (revised) report by February 10, 1975. At the time of this writing (September 11, 1974) a copy of the preliminary EPA report could not be obtained.

APPENDIX E

OUTFLOW OF CAPITAL

APPENDIX E. APPARENT OUTFLOW OF CAPITAL FROM THE U.S. FOR LONG-TERM INVESTMENT

Year	$ Billion	% of Gross Private Fixed Investment
1968	3.6	2.8
1969	9.7	6.9
1970	5.3	3.8
1971	9.9	6.4
1972	4.5	2.5
1973	15.4	7.6

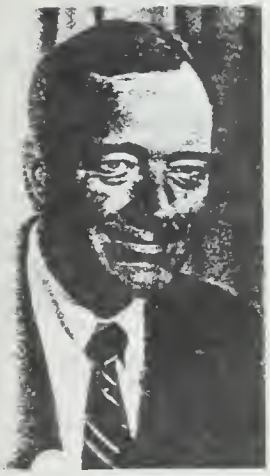
Source: Derived from BEA's data on the U.S. investment position abroad (net) periodically published in the Survey of Current Business. The outflow was estimated by subtracting U.S. nonliquid liabilities to foreigners, net of reinvested earnings, from U.S. nonliquid assets abroad, net of reinvested earning and obtaining the year-to-year changes in the net outflow.

APPENDIX F

SECRETARY DENT'S ARTICLE

FROM THE SECRETARY

Avoiding 'An Illogical Posture'



While we are deeply occupied in problems and issues such as the state of the economy and world diplomacy, we must not invite shortfalls in other areas of vital national interest. One such area is the nurture of science and technology.

Science and technology form the basis of man's ability to cope with the needs of an increasingly complex society. Without science and technology, the practical demands of humanity go unanswered. Two examples of areas where research and development are required come to mind. We must develop a viable synthetic fuels industry. We must face the unresolved question of material shortages which threaten existing industries. But problems such as these continually challenge our society, and without our constant support, scientists and technologists can hardly be sought at the peak of a crisis and asked to produce answers overnight.

We tend to be crisis-oriented. Without a crisis, such as World War II, or a far-reaching commitment, such as the space program, we assign a lower priority to research and development than scientists—or the public—deserve. In fact, in recent years, it has been voguish to portray science and technology as dehumanizing. This tendency contrasts sharply with the progressive role of one of our most important fields of study.

The sudden impact of the oil embargo came like a cold shower shock. But we have to be grateful for being pointed in the right direction. Energy independence is essential, we are now discovering.

We have seen elsewhere what the marshalling of our research and development resources and skills can do. Putting man on the moon was one such project. Integral to that accomplishment was the will, funding, and organization to get the job done.

Similarly, the priority we give to science and technology will have a direct and corresponding impact on our supply of energy resources, on our economy, and on the quality of our lives. To downgrade scientific research and technological development is to decelerate the main engine that gives a dynamic, wealth-generating thrust to our society. This is to say that to be for social improvements, and against technology, is, to put it mildly, an illogical posture.

Our status internationally is also dependent upon maintaining our superiority in sophisticated technology. The contribution of the aerospace industry is just one example of the role of technology in our trade with other nations. Without billions of dollars in aerospace exports we would have had a deficit trade balance every year since 1969. In national security, too, the essential ingredient of our strength is the sophistication of our research and development, an element of our strength which is respected throughout the world.

The energy crisis demonstrated the interdependence of our national security and our capabilities in the development of new energy resources. The Arab oil embargo dramatized our relationship with the Middle East and our dependence upon foreign energy resources to maintain our position as world leader. Now that the embargo has ended, we should be more determined than ever to demonstrate our priorities in energy research and development and in striving to achieve the goals of Project Independence.

Two years ago, President Nixon delivered a message to Congress on the continuing importance of science and technology to national progress. It is timely to repeat his emphasis that ". . . the impact of new technology can do much to enrich the quality of our lives. The forces which threaten that quality will be growing at a dramatic pace in the years ahead. One of the great questions of our time is whether our capacity to deal with these forces will grow at a similar rate. The answer to that question lies in our scientific and technological progress."

Frederick B. Dent

APPENDIX G

U.S. TECHNOLOGY: WILL TAKING-IT-FOR-GRANTED CHANGE OUR HISTORY?

U.S. TECHNOLOGY: WILL TAKING-IT-FOR-GRANTED CHANGE OUR HISTORY?

A POLITICAL ECONOMIST'S VIEW*

by

Michael Boretsky
U.S. Department of Commerce

INTRODUCTION

Up until the civil war, the United States was what we would now call an underdeveloped country, and its technology, with few exceptions, was no more than a poor offset renditon of Europe's technology. Abundant natural resources, however, coupled with Alexander Hamilton's policy of industrialization,[1] which the country vigorously pursued from the time of the Revolution until about the end of World War II, plus an otherwise positive attitude toward technological and industrial development on the part of Government and society at large, had made it a rapidly developing country (by the standards of the time, at least). The most relevant historical evidence suggests that American technology reached parity with Europe by 1870 or thereabout; by the turn of the century it was in most respects higher than Europe's; and by the end of World War II it had become a literal "wonder" to the rest

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*This article represents a modified version of the author's lead-paper presented at the 27th meeting of the National Conference on the Administration of Research held in Montreal, Canada, in September 1973. The views expressed therein, based on a study of interest to and sponsored by the Department of Commerce, are those of the author and do not necessarily represent the views of the Department or any other agency of the U.S. Government. In the study the author was assisted by Robert G. McKibben.

[1]Promotion of immigration of industrious and technologically-skilled manpower, import of capital, and protection of "infant" industries. Of the three elements of Hamiltonian policy, economic historians usually emphasize the protection of "infant" industries. His Report on the Subject of Manufactures, submitted to Congress on December 5, 1791, in his capacity as Secretary of the Treasury, does not emphasize it any more than the other two. In fact all three would seem to have been to him equal and indispensable elements of overall policy. (Cf., Alexander Hamilton, Report on Manufactures, Boston: A reprint by the Home Market Club, 1892).

of the world. Parallel with this technological development, and because of it, America grew into the number one world power--economically, politically and militarily.

Toward the end of 1960's, and especially since 1971, however, a number of societal attitudes toward technology, on one hand, and quite a few unfavorable economic trends implying similarly unfavorable trends in technology, on the other, have induced considerable speculation about America's economic and political future. Unlike that of the past two decades or so, the present concern is not with the country's technology relevant to defense and the conquest of space, but with technology relevant to the quality of life in society at large, as well as, more specifically, productivity, and commercial markets at home and abroad.

The debate in question has been underway now for some three years or so. Despite this length of time, however, there is still considerable confusion as to the real state of affairs in U.S. technology, and an almost unbelievable amount of confusion as to what precisely the problems are, the reasons for these problems, and what can and should be done about them.

There are people who argue that the United States' rate of technological progress is heading downward, that the country's technological leadership in the world's rapidly disappearing and that in "technological prowess," they predict, the United States will become "just another industrialized country" in a matter of a few years.

Others would seem to hold just the opposite view: There is absolutely nothing wrong with U.S. technology. To "prove" this view, they invariably cite the fact that Japan, all European countries and Canada have been buying and otherwise importing U.S. technology <u>en masse</u>, and more recently the USSR has started doing the same. If there were something wrong with U.S. technology, they contend, foreign countries would not buy it.

There are still others who argue that even if the United States were losing technological preeminence, there is nothing to worry about because, first, it is probably inevitable, and, to some degree, desirable; secondly, U.S. technology is so much more advanced than the other countries that it will take quite some time for them to advance anywhere near the U.S. level; and, thirdly, the U.S. economy has strengths other than technology.

In an attempt to resolve these conflicting viewpoints and to assess just where the United States stands and seems headed on the technological totebard of comparative economic advantage, I shall try to give a brief analysis of facts bearing on the current state of U.S. technology, the problems to be faced, and the apparent causes of these problems.

CURRENT STATE OF U.S. TECHNOLOGY

The only way to meaningfully define the state of a country's technology at any single point in time is by reference to the country's own historical performance <u>and</u> the state of relevant affairs abroad at the time in question.

In reference to its own historical performance, there is no question that the current level of U.S. technological development is higher than it has even been. For example, in 1972, U.S. consumption of BTU's for productive purposes per civilian person employed in the private economy, which is probably the single most comprehensive indicator of overall relative technological advancement, or at least relative technological intensity, that we have, was about 62 percent higher than in 1950 (1950 = 100, 1972 = 162), and private GNP (in constant prices) per person employed in the private economy was 74 percent higher.

The reason for this apparently close correlation between these two indicators is that, historically, at least to date, the essence of most innovations in civilian technology has been the substitution, usually in all kinds of equipment and mechanical implements, of BTU's for human and animal energy. The ratio between the two figures, 0.93 to 1, might not be a precise measure of the dependence of the output per man on the

TABLE 1

COMPARISON OF INTERNATIONAL DISPARITIES IN RELATIVE CONSUMPTION OF PRIMARY ENERGY SOURCES OTHER THAN MOTOR GASOLINE PER CIVILIAN PERSON EMPLOYED AND RELATIVE GNP PER CIVILIAN PERSON EMPLOYED[a], SELECTED COUNTRIES, 1970

Country	Ratio of U.S. to Foreign Country's Consumption of Primary Energy Sources other than Motor Gasoline per Civilian Person Employed in the Economy	Ratio of U.S. to Foreign Country's GNP per Civilian Person Employed in the Economy[a]
France	2.8	1.4
West Germany	2.2	1.8
Belgium	1.4	1.6
Netherlands	1.6	1.7
Italy	3.2	2.1
United Kingdom	2.1	2.1
Unweighted Average for the 6 West European Countries	2.0	1.7
Canada	1.2	1.2
Japan	3.6	3.1
USSR	3.2[b]	3.4[b]

a) GNP valued in dollars of comparable purchasing power.
b) 1969, relative consumption of energy for productive purposes.

Sources: Department of Commerce, OECD and individual country data.

consumption of BTU's per man, and, hence, technology, but this dependence is unquestionably very high.

Similar indicators show that U.S. technology is also still much more advanced or at least much more intensive than the technology of any other country. (See Table 1. The estimates in the table refer to 1970, but these relatives could not have changed enough in three years to invalidate this conclusion.) Based on a variety of other data, which, because of space limitations, cannot be presented here, I also conclude that as of now there are hardly any economically important product or service lines in which the quality of U.S. technological know-how would not equal or excel that anywhere abroad.

This conclusion might be reassuring to most Americans, and incite envy in most foreigners, but numerous economic and social trends show clearly that U.S. technology faces many serious problems. The most far-reaching among these problems are the decline in U.S. productivity growth, both of labor and capital, and the deterioration in the U.S. foreign trade position.

Decline in Growth of Productivity of Labor and Capital

The importance of the decline of productivity growth of both labor and capital derives from the fact that both are practically the only source of growth in the country's material well-being. Without growth in productivity, money income might be increasing, but real income, or real material well being, will not. The critical dependence of labor productivity growth on technology has been alluded to in my preceding comparisons of consumption of BTU's with output per man. The same is by and large true for capital productivity. At least conceptually, the only time capital productivity can grow is when the efficiency of new capital goods (plant and equipment) grows faster than prices of these goods, and this can happen only when the economic value of resource-saving technological innovations embodied in new capital

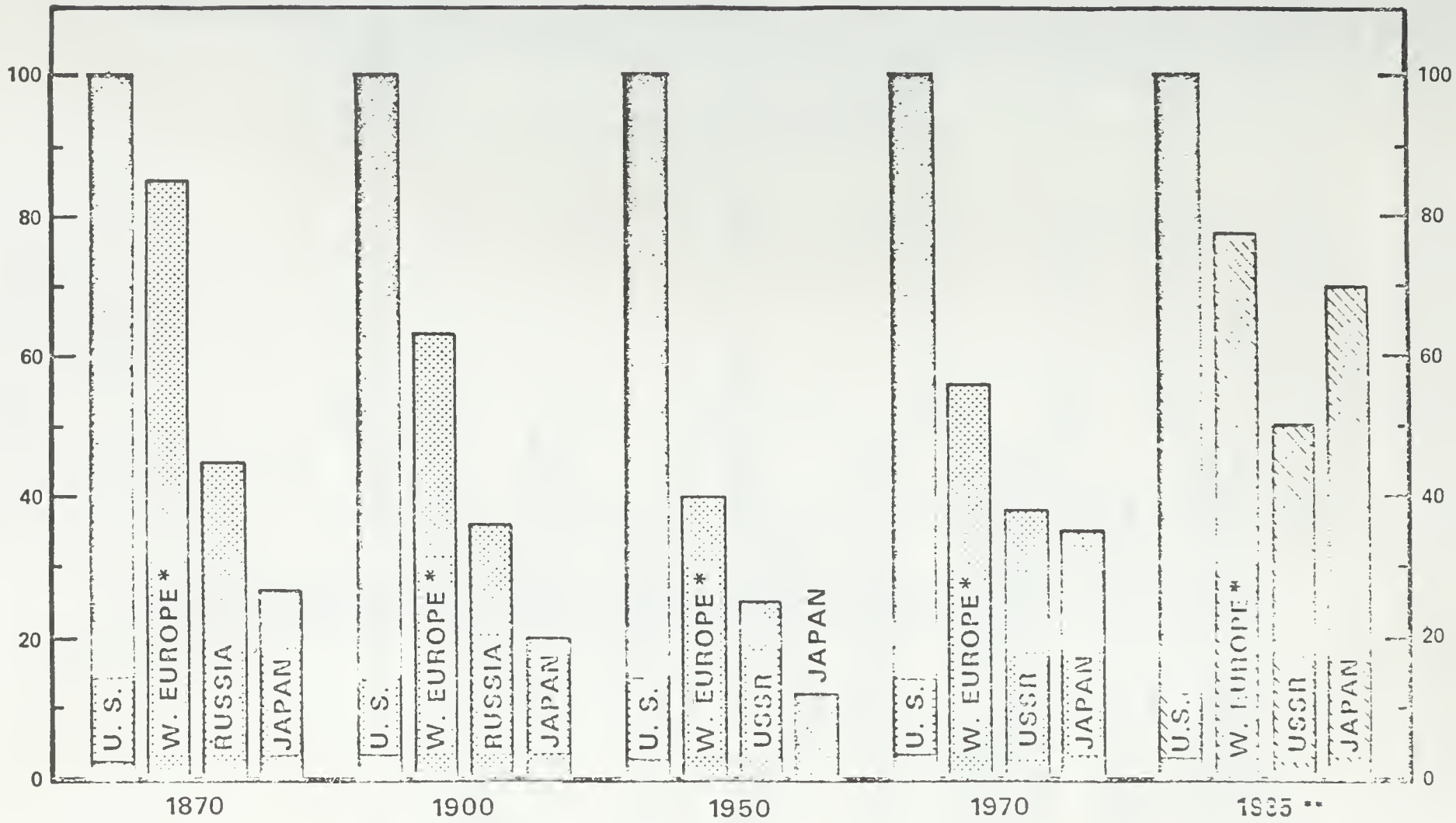
TABLE 2. COMPARATIVE RATE OF GROWTH IN GNP PER CIVILIAN PERSON EMPLOYED, % PER YEAR, SELECTED PERIODS, 1870-1971

Country	1870-1950	1950-1965	1965-1971
United States	2.4	2.5	1.3
France	1.7	4.6	4.9
West Germany	1.6	4.8	4.3
Belgium	1.6	3.0	3.7
Netherlands	1.1	3.7	4.7
Italy	1.5	5.5	5.7
United Kingdom	1.6	2.2	2.5
Unweighted Average for the 6 West European Countries	1.5	4.0	4.3
USSR (Russia)	1.7 a/	4.2	4.3
Japan	1.4 a/	6.8	9.6

a/ Growth in per capita GNP.

Sources: U.N.; OECD; Angus Maddison, Economic Growth in the West, The Twentieth Century Fund, 1964; Idem, "Comparative Productivity Levels in the Developed Countries," Banca Nazionale del Lavoro Quarterly Review, No. 83, December 1967; Edward F. Denison, Why Growth Rates Differ, The Brookings Institution, 1967; M. Bornstein, A Comparison of Soviet and the U.S. National Product, JEC, 1959; Peter G. Peterson, Secretary of Commerce, U.S.-Soviet Commercial Relationships in A New Era, August 1972; Murray Feshbach, "Manpower in the USSR: A Survey of Recent Trends and Prospects," New Directions in the Soviet Economy, Part III, Joint Economic Committee, 1966, and subsequent communications; and individual country data.

Fig. 1. Comparative Output (GNP) Per Civilian Person Employed, 1870-1985



*Average of France, West Germany, Belgium, Netherlands, Italy and United Kingdom.
** Projected

Source: See Table 2

TABLE 3. ESTIMATES BEARING ON TRENDS IN CAPITAL PRODUCTIVITY AND RELATIVE CAPITAL REQUIREMENTS IN U.S. PRIVATE ECONOMY: SELECTED PERIODS, 1947-1973

Item	1947-1965	1965-1973
1. Average Annual Growth of Private GNP in Constant Dollars, Percent	3.9	3.9
2. Average Annual Growth of Employment in Private Economy, Percent	0.9	1.9
3. Average Annual Growth of Private Nonresidential Business Capital Stock (Gross Value of Plant and Equipment) in Constant Dollars, Percent	3.3	4.2
4. Average Annual Growth in Private GNP per Person Employed, Percent	3.0	2.0
5. Average Annual Growth in Value of Private Nonresidential Capital Stock per Person Employed in the Private Economy, Percent	2.4	2.3
6. Ratio of Average Annual Growth of Private Nonresidential Capital Stock (item 3) to Growth of Private GNP (item 1)	0.85	1.08
7. Ratio of Average Annual Growth of Private Nonresidential Capital Stock per Person Employed (item 5) to Growth of Private GNP per Person Employed (item 4)	0.80	1.15

Sources: U.S. Department of Commerce and the Bureau of Labor Statistics

TABLE 4. DATA BEARING ON INTERNATIONAL DISPARITIES IN PRODUCTIVITY GROWTH OF FIXED NONRESIDENTIAL CAPITAL INVESTMENT: SELECTED COUNTRIES, 1955-1971

Country	A. Average Annual Growth in Fixed Nonresidential Investment, % Per Year		B. Average Annual Growth in Output (GNP), % Per Year		C. Average Annual Growth in Output (GNP) Per Civilian Person Employed, % Per Year		D. Ratio of (B) to (A)		E. Ratio of (C) to (A)	
	1953-63	1963-69	1955-65	1965-71	1955-65	1965-71	(b) 55-65 to (A) 53-63	(B) 65-71 to (A) 63-69	(C) 55-65 to (A) 53-63	(C) 65-71 to (A) 63-69
United States	3.1	6.4	3.5	3.2	2.2	1.3	1.13	0.50	0.71	0.20
France	9.6	8.4	4.9	6.3	5.1	4.8	0.51	0.75	0.53	0.57
West Germany	11.1	5.4	6.2	4.3	4.5	4.3	0.56	0.80	0.41	0.80
Belgium-Luxembourg	5.9	5.2	3.5	4.4	2.7	3.7	0.59	0.85	0.46	0.71
Netherlands	7.1	7.9	4.4	5.0	3.1	4.3	0.62	0.63	0.44	0.54
Italy	8.6	1.2	5.4	5.3	5.6	5.5	0.63	4.42	0.65	4.58
COMMON MARKET Countries, Total	8.9	5.8	5.3	5.0	4.6	4.8	0.60	0.86	0.52	0.83
United Kingdom	6.3	5.2	2.9	2.3	2.1	2.8	0.46	0.44	0.33	0.54
Canada	3.0	6.0	4.3	4.8	1.9	1.8	1.43	0.80	0.66	0.30
Japan	14.8	14.2	9.6	11.2	8.0	9.6	0.65	0.79	0.54	0.68
USSR	8.7	7.9	5.8	5.5	3.5	3.6	0.67	0.70	0.40	0.46
Unweighted Average for the 10 Foreign Countries	8.3	6.8	5.2	5.5	4.1	4.5	0.63	0.81	0.49	0.66

NOTE: In comparing growth in output (GNP) and output (GNP) per civilian person employed with growth in fixed nonresidential investment posted in columns (D) and (E), respectively, a two-year lag for the effects of new investment to materialize is assumed.

SOURCES: See Table 2.

TABLE 4A. INTERNATIONAL DISPARITIES IN FIXED NONRESIDENTIAL INVESTMENT AS A PERCENT OF GNP,[a] SELECTED YEARS 1955-1971

Country	1955	1960	1965	1969	1971
United States	12.1	12.0	13.1	13.1	13.1
France	12.2	14.7	16.6	19.6	20.1
West Germany	16.7	18.8	21.0	21.1	21.7
Belgium-Luxembourg	13.3	14.1	15.2	16.3	15.7
Netherlands	17.8	18.9	20.2	22.1	20.8
Italy	13.8	15.5	12.4	13.1	13.7
COMMON MARKET, Total	14.9	16.6	17.7	18.5	19.3
United Kingdom	10.6	12.7	14.3	14.9	14.8
Canada	17.9	18.8	19.8	18.2	18.0
Japan	15.1	23.4	26.2	31.8	31.9
USSR[b]	18.2	23.7	26.1	27.6	29.9
Unweighted Average for the 9 Foreign Countries	15.1	17.8	19.1	20.5	20.7

a/ Derived from data in 1963 prices.
b/ Derived from estimates valued in 1963 U.S. dollars.

Sources:

Western Countries: EEC, National Income Accounts 1950-1971; OECD, National Accounts of OECD Countries, 1953-1969; OECD, National Accounts of OECD Countries, 1960-1970; OECD, Main Economic Indicators, selected issues; Statistics Canada, Canadian Statistical Review, selected issues; U.S., Statistical Abstract of the United States, 1972; HMSO, Annual Abstract of Statistics, 1972; OECD, Manpower Statistics 1954-1964, Paris 1971; and OECD, Labour Force Statistics, 1959-1970, Paris 1972.

USSR: M. Bornstein, "A Comparison of Soviet and the U.S. National Product," Comparisons of the United States and Soviet Economies, Joint Economic Committee, Congress of the United States, Part II, 1959; CIA, A Comparison of Capital Investment in the U.S. and the USSR 1950-1959, February 1961 and subsequent unclassified communications; Murray Feshbach, " Manpower in the USSR: A Survey of Recent Trends and Prospects," New Directions in the Soviet Economy, Part III, Joint Economic Committee, 1966, and subsequent communications; and Peter G. Peterson, Secretary of Commerce, U.S.-Soviet Commercial Relationships in A New Era, August 1972. In converting 1955 rubles into 1963 U.S. dollars the following conversion factors were used: GNP--$1.38 per ruble; nonresidential fixed investment--$2.00 per ruble.

goods exceeds the cost of innovations. Both are generally recognized by most economists.[2] Table 2 provides estimates of comparative rates of growth of GNP per civilian person employed in the United States vis-a-vis other countries in selected periods over a span of more than one hundred years--between 1870 and 1971; and Figure 1 shows the approximate comparative level of the value of GNP per person employed in dollars of comparable purchasing power at selected points in time over the same hundred years and a projection of what these comparative levels are likely to be by 1985. Tables 3 and 4 give estimates bearing on the recent decline in U.S. capital productivity relative to both the U.S. earlier period going back to 1947 (Table 3) and to other countries (Table 4).

Viewing the information in Table 2 and Figure 1 from the perspective of U.S. historical performance we should note, first of all, that for about 20 years following World War II the United States maintained about the same rate of labor productivity growth as the average of the preceding 80-plus years (2.4 to 2.5 percent per year). This greatly contributed to the United States becoming the world's foremost economic power. In the 1965-1971 period, however, our growth rate slipped to about one-half of this long-term average. From 1965 through 1973, which included the two most recent "boom" years when labor productivity presumably should have "zoomed," our growth rate averaged 1.7 percent per year, slightly better than in 1965-1971, but still 30 percent or so less than the preceding long-term average.

Table 3 shows that the decline in the growth of labor productivity in 1965-1973 was paralleled by a decline in capital productivity (items 6 and 7).

Most economists argue that this decline was strictly cyclical, induced by policy measures that restrained the growth in output in 1969 and 1970. They also further

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[2]Cf., e.g., W.E.G. Salter, Productivity and Technical Change, Monograph 6, Cambridge, England: Cambridge University Press, 1960, passim; and Edward F. Denison, The Sources of Economic Growth in the United States and the Alternatives Before Us, CED, 1962, p. 265, and Why Growth Rates Differ, The Brookings Institution, 1967, p. 298.

assert that the long-term rate will resume once the growth in total output resumes its normal path. As William D. Nordhaus[3] has demonstrated, however, this slowdown contains a substantial long-term element, and one that is and not automatically reversible. The most persuasive prima facie observation favoring the Nordhaus argument is the fact that no labor-productivity-growth-slowdown in U.S. history, for which we have statistics, including the Great Depression (1929-1939), was greater than 20 percent of the long-term average, compared with about 30 to 50 percent in the 1965-1971 or 1973 period, most of which was not recessionary. Moreover, even a resumption of the long-term rate, however impressive it might have been in the past, would be far from sufficient for the country's comfort in the years to come. As is evident in Figure 1, the United States gained the peak of its economic preeminence in the world by about 1950, largely because its labor productivity growth in the preceding 80-plus years was a mere 9/10 of one percentage point higher than the average abroad (2.4 percent in the United States versus about 1.5 percent abroad). Continuation of essentially the same rate in the 1950-1965 period, however, produced a decline in the relative position of the United States vis-a-vis the other countries at a rate about the same as the rate of our gain in 1870-1950 because the other countries more than tripled their rate of productivity growth. The decline in U.S. labor productivity growth to about 1.3 percent per year in the 1965-1971 period, coupled with a further speed up of this growth abroad, accelerated the United States loss of eminence at a rate more than 1 1/2 times faster than it took to obtain the preeminent position in the years prior to 1950.

All these unfavorable trends have tremendous implications for the country's future growth in well-being, its relative position in the world-both economic and political, the future inflation pressures, and the like. The decline in capital

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[3]Cf., William D. Nordhaus, "The Recent Productivity Slowdown," Brookings Papers on Economic Activity, 1972, #3, pp. 493-536.

productivity (which is the same thing as progressive growth in relative capital requirements) implies, it should be noted, that the progressively growing shortages of "investible funds" and interest rates hitting double-digit levels which we have been witnessing since the middle 1960's is not a short term phenomenon but a result of long-term forces at work in the economy, namely, private propensity to save and business profit rates remaining essentially at pre-1965 levels, while the capital requirements per unit of additional capacity grows. And, these trends are more than likely to continue unless the generic forces causing them are reversed. Moreover, the new capital-intensive programs that have been launched quite recently, such as the intensified environmental pollution control and "Project Independence," are likely to substantially worsen these trends.

There is hardly any question that the principal generic force behind all these unfavorable trends, so far, is the decline in the country's rate of "civilian-life-oriented" technological advance relative to both the U.S.'s own past performance and the current performance of other industrialized countries. The only way to reverse these trends is to reverse the decline in the rate of the U.S. technological advance.

Deterioration in U.S. Trade Position

To most economists, and Government officials and politicians who rely on the advice of these economists, the deterioration in the U.S. trade position which became visible in 1971 and 1972 represents a part of the productivity problem; technology, in this view, is assumed to have contributed to this deterioration only to the extent to which it adversely affected the productivity of industries engaged in the production of internationally traded goods. Though seemingly in line with the established theory of international trade, this view is wanting for at least three reasons:

(1) The trade-executing mechanism is not comparative productivity and changes therein, but their inverse—changes in comparative costs and/or relative price levels. Though growth in productivity, as was shown in the preceding section, has

been much faster abroad than in the United States throughout the post World War II period, the rate of inflation (price rises) has been much lower in the United States than abroad.[4]

(2) Technology affects a country's foreign trade not only through productivity and, hence, prices, but also more directly--via exports and imports of products embodying superior or unique technological know-how, the demand for which tends to be a function not so much of the products' formal prices as of the relative quality of the know-how in question. For an example, I refer to such U.S. products as the Boeing 747 aircraft and enriched uranium. The United States enjoys substantial trade surpluses in both, and this is not because the productivity of U.S. workers producing these products is high or that the prices of these products are low but because the quality of the U.S. know-how embodied in these products is either unique or superior to that possessed by other countries.

Conceptually, a superior technological know-how embodied in a particular product might be equated with a tangible surplus value which the buyer gets, either in the form of the product's greater economic efficiency compared with similar products embodying less advanced technology in the case of capital goods, or greater satisfaction on the part of consumer in the case of consumer goods. This surplus value is the reason that people buy products embodying advanced technology, and mostly at prices much higher than the price of similar products embodying inferior know-how. Indeed, I am told that, for example, the greater reliability of U.S.-made industrial equipment alone, compared with otherwise identical foreign-made equipment, frequently commands a price premium of 20 percent or more.

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[4]This is true in terms of all commonly used indicators of inflation, such as GNP deflator, wholesale price index and consumer price index, except in terms of changes in unit export values. As the U.S. Bureau of Labor Statistics has recently demonstrated, however, the index of unit export values is totally meaningless. Cf., Department of Labor Bulletin No. 71-363, dated June 30, 1971; and No. 72-16, dated January 14, 1972.

TABLE 5. TRENDS IN U.S. MERCHANDISE TRADE BY MAJOR GROUP, SELECTED YEARS, 1951-1972

(Values in Billions of Dollars)

Commodity Group	1951-1955 (Average)	1962	1965	1971	1972
Agricultural Products					
Exports b/	3.2	5.0	6.2	7.7	9.4
Imports	4.4	3.9	4.1	5.8	6.2
Balance	-1.2	1.1	2.1	1.9	3.2
Minerals, fuels and other raw materials					
Exports b/	1.3	2.1	2.6	3.8	4.3
Imports	3.3	4.5	5.4	7.9	10.1
Balance	-2.0	-2.4	-2.8	-4.1	-5.8
Not technology-intensive manufactured products					
Exports b/	3.7	3.5	4.4	6.3	7.1
Imports	1.9	5.1	7.4	14.6	17.8
Balance	1.8	-1.6	-3.0	-8.3	-10.7
Technology-intensive manufactured products					
Exports b/	6.6	10.2	13.0	24.2	26.6
Imports	0.9	2.5	3.9	15.9	19.9
Balance	5.7	7.7	9.1	8.3	6.7
All Commodities a/					
Exports b/	15.5	21.7	27.5	44.1	49.8
Imports	10.9	16.5	21.4	45.6	55.6
Balance	4.6	5.2	6.1	-1.5	-5.8

a/ Include the four commodity groups shown above plus "goods and transactions not classified according to kind" and reexports.

b/ U.S. exports include "non-commercial" shipments, such as military grant/aid, shipments of agricultural commodities under Public Law 480, etc.

Source: U.S. Department of Commerce

(3) Apart from relative price levels and relative quality of technological know-how other than that working through productivity and prices, a country's foreign trade is also affected by its endowment of natural resources relative to its needs. The more abundant the country's resources, such as oil, relative to its needs, the more of these resources it is likely to export and the less it will import.

The commodity detail and time scale of Table 5 maps out the minimum role of technology in U.S. trade and the principal forces behind the deterioration in the U.S. trade position.

Of primary interest to this analysis are, of course, what I define as technology intensive manufacturing products. This product group includes: chemicals; nonelectric machinery; electrical machinery and apparatus, including electronics; all types of transportation equipment, including aircraft and automobiles; and scientific and professional instruments and controls. The chief criterion in designating these products as technology-intensive is the relative intensity of the new-technology-generating inputs used in their production—research and development, scientific and engineering manpower used in functions other than R & D (design, production supervision, customer services, etc.), and the relative level of workers' skill.

In the United States, the industries manufacturing technology-intensive products spend about 11 to 12 times as great a proportion of their value-added on R & D as do industries manufacturing nontechnology-intensive products; the employment of scientists, engineers and technicians in functions other than R & D relative to production workers in industries manufacturing these products is almost 5 times as great as in the other manufacturing industries; and the employment of craftsmen relative to "operatives and laborers" is some 70 percent or so greater than in the other industries.

Moreover, the industries manufacturing these products are not only the primary users of the new-technology-generating inputs, but also, unquestionably the primary

domestic originators of technological innovations, and this not only for their own use but for all other sectors of the economy through the equipment, instruments, and synthetic materials embodying innovations they supply. Internationally, the disparities in technological prowess among the industrialized countries are largely concentrated in these industries.

This commodity group is clearly the only one that has consistently yielded surpluses which have covered deficits in trade with other commodity groups as well as deficits arising from other U.S. financial transactions with foreign countries. The gross surplus yielded by trade in this commodity group averaged $5.7 billion in 1951-1955, $7.7 billion in 1962, and reached $9.1 billion in 1965. From 1965 until 1970 it fluctuated between $9.1 and $9.4 billion. In 1971, however, the surplus slipped to $8.3 billion and in 1972 to about $6.7 billion.

From this it must be concluded that technological know-how has been, and still is, the force behind U.S. trade successes and behind the strength of the dollar's external value. This force, however, is getting progressively weaker, and this weakening has been one of the principal factors in the deterioration of the total U.S. trade position.

Moreover, contrary to general beliefs, the comparison of growth rates of U.S. imports and exports of these products implicit in the table indicates clearly that the weakening of U.S. technological advantage in trade has not occurred suddenly, but, as in productivity performance vis-a-vis other countries, it has been underway since the early 1950's. Indeed, the ratio of the growth of U.S. imports to the growth of U.S. exports of these products has been an almost constant 2.5 to 1 throughout the entire 20-odd years covered in the table. With the higher rate of inflation abroad throughout the entire period, as noted earlier, the only explanation of the faster growth of U.S. imports of such products is the concomitantly faster growth of technological know-how abroad.

The two other forces that brought about the deterioration in the overall U.S. trade position are: (1) U.S. losses of competitiveness in manufactured products

other than technology-intensive, where the evolution of general "industrial art" rather than R & D or advanced engineering plays a major role, and (2) the growing inadequacy of domestic supply of minerals, fuels and other raw materials relative to the economy's needs.

Overall, the deterioration could hardly have been more dramatic--almost a 180° turnaround of the overall balance in just seven years, from a $6.1 billion surplus in 1965 to a deficit of about $5.8 billion in 1972.

By August 1971 the deterioration process had forced an unprecedented (because of lower rates of inflation in the United States than abroad) devaluation of the dollar, followed by another in February of 1973 at which time the dollar was also set "afloat." From the time just prior to the initial "runs" on the dollar in April of 1971 until the middle of May 1974, the dollar was effectively devalued against all foreign currencies by 9 to 14 percent (the figure depends on whether U.S. exports or imports are used in weighting individual changes), and 14 to 24 percent against the currencies of the industrilized countries.

The analysis of the developments in U.S. trade from the middle of August 1971 to January 1973, leaves hardly any doubt that the primary effect of the first devaluation was a further deterioration in the trade balance, largely because of a worsening in the U.S. terms of trade, and just about by the amount of the actual world-wide devaluation. The second devaluation and the subsequent "floating" of the dollar might have had the potency to produce some improvements in the situation, but the data on what actually transpired in U.S. trade in 1973 (Table 6) and the reasons why, plus the skyrocketing prices of foreign oil, suggest that this improvement might only be of a will-o'-the-wisp nature.

The only encouraging indications of a possible improvement in the U.S. trade situation implicit in Table 6 are a sizeable turnaround in the overall trade balance--from an overall gross deficit of $5.8 billion in 1972 to a <u>gross</u> surplus of about $2.2 billion in 1973, and a substantial increase, by $4.0 billion, in the trade surplus in technology-intensive manufactured products.

TABLE 6. U.S. MERCHANDISE TRADE, TOTAL AND BY MAJOR COMMODITY GROUP: 1973 COMPARED WITH SELECTED YEARS AND PERIODS IN THE PAST

Commodity Group	Billions of Dollars			Average Annual Growth Rates, %		
	1971	1972	1973 p/	1962-1971	1972	1973 p/
Agricultural Products						
Exports b/	7.7	9.4	17.7	4.0	22.1	87.9
Imports	5.8	6.2	8.4	3.7	12.1	37.3
Balance (Gross)	1.9	3.2	9.3	—	—	—
Minerals, Fuels & Other Raw Materials						
Exports b/	3.8	4.3	6.0	5.5	13.2	41.1
Imports	7.9	10.1	14.1	5.2	27.8	40.0
Balance (Gross)	-4.1	-5.8	-8.1	—	—	—
Not Technology-Intensive Manufactured Products						
Exports b/	6.3	7.1	9.9	5.5	12.7	39.1
Imports	14.6	17.8	20.7	10.0	21.9	16.2
Balance (Gross)	-8.3	-10.7	-10.8	—	—	—
Technology-Intensive Manufactured Products						
Exports b/	24.2	26.6	34.8	8.2	9.9	30.6
Imports	15.9	19.9	24.1	18.3	25.4	20.7
Balance (Gross)	8.3	6.7	10.7	—	—	—
All Commodities a/						
Exports b/	44.1	49.8	71.3	6.7	12.9	43.3
Imports	45.6	55.6	69.1	9.7	21.9	24.4
Balance (Gross)	-1.5	-5.8	2.2	—	—	—

a/ Include the four commodity groups shown above plus "goods and transactions not classified according to kind" and reexports.

b/ U.S. exports include "non-commerical" shipments, such as military grant/aid, shipments of agricultural commodities under Public Law 480, etc.

p/ Preliminary

Source: U.S. Department of Commerce

However, the reasons for skepticism regarding the durability of this improvement are simply overwhelming:

(1) The bulk of the overall improvement in the trade surplus came from trade in agricultural products, which yielded a surplus of $9 billion, but which also produced shortages in the supply of the products to domestic markets and a drastic acceleration of inflationary pressures in the economy. This implies that by now we have reached a magnitude of exports of these products that is unsustainable unless the nation acquiesces to a continuation of all its ill effects on the economy;

(2) The bulk of the increase in the surplus of technology-intensive products was due to the substantial increase in shipments of military equipment to Israel and the much greater than average growth in GNP and investments, requiring U.S.-made capital equipment, in most industrialized countries abroad in 1973. This is not likely to continue.[5]

(3) A substantially greater increase in the rate of inflation in all other industrial countries than in the United States[6] which, <u>if continued, would probably lead</u> to a world-wide depression;

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[5]At the end of the year OECD estimated that in the whole year of 1973 real economic growth in the EEC countries would average about 6 percent, compared with an annual average of about 4.8 percent in the 1960-1971 period; in the United Kingdom, about 6.7 percent compared with an average of 2.9 percent per year in the 1960-1971 period; in Canada, 7.3 percent compared with 4.9 percent per year in the 1960-1971 period; and in Japan, 11 percent, about the same as in the 1960-1971 period. See OECD, <u>Economic Outlook</u>, No. 14, December 1973, pp. 23-24.

[6]In 1973 U.S. GNP deflator increased by 5.3 percent, compared with an average of about 3 percent per year in 1960-1972, but in West Germany it increased by about 6.3 percent, compared with an average annual increase of 3.6 percent in the 1960-1971 period; in France, by 7 percent compared with average of 4.4 percent in the 1960-1971 period; in the United Kingdom, by 5.8 percent compared with an average of 4.2 percent in 1960-1971 period; in Japan, by 10.5 percent compared with 4.8 percent in 1960-1971; and in Canada, by 6.5 percent, compared with an average of 3.0 percent in the 1960-1971 period. See <u>ibid</u>., p. 35.

(4) The complete failure of all the devaluations to slow down the rate of growth in U.S. imports in any product group, and especially the manufactured products, whether technology-intensive or nontechnology-intensive, below the average rates prior to the first devaluation, most notably below the rates of the 1962-1971 period; and

(5) A small reflection in the 1973 trade of the huge increases in foreign prices of oil initiated toward the end of the year, but whose adverse impact will increase dramatically in 1974 and thereafter.

CAUSES OF THE LOSS OF U.S. TECHNOLOGICAL ADVANTAGE

How did all this happen? Undoubtedly, the causes have been numerous. In a generic sense I would attribute, one way or another, most of these problems to a change in the American society's historic posture with respect to technology and long-term economic self-interest, on one hand, and a lack of any long-term economic perspective within the Government, on the other. The most important avenues through which these generic causes have exerted themselves have been:

1. a lower growth of investment in new industrial plant and equipment in the United States than in other industrialized countries since the early 1950's;

2. an underinvestment in economically relevant R & D relative to other industrialized countries since the beginning of the 1960's; and

3. a world-wide and practically one-sided diffusion of existing U.S. advanced technology in a "naked" form since the end of World War II, especially since the end of the 1950's.

Investment in Plant and Equipment

It is generally assumed that investment in new industrial plant and equipment is the principal vehicle for the internal diffusion of new technology in the economy and, hence, the principal mechanism through which new technology raises productivity. This assumption, it should be noted, is the reason why many Governments, including the U.S., use all kinds of investment tax credits and favorable capital depreciation allowances as their principal tool for fostering productivity growth. The assumption

is unquestionably correct, but new investment in plant and equipment raises productivity only if the new capital goods continue to incorporate new resource-saving technology.

The comparisons given in Table 4 show that in the 1953-1963 period U.S. nonresidential fixed investment grew on the average only about 37 percent as rapidly as the average of the ten foreign countries listed in the table, and U.S. output per person employed at a rate about 54 percent of theirs. In the 1963-1969 period, however, the U.S. growth in nonresidential investment was virtually the same as the average of these countries, but the growth in output per man slipped to only 29 percent of the foreign average.

This implies that the smaller U.S. growth in nonresidential investment has been a factor in the loss of U.S. productivity advantage throughout the post World War II period, but it was far more important in the 1950's than in the 1960's. In fact in the 1960's it was, for all practical purposes, only of marginal significance.

This also implies, significantly, that our reliance on the investment tax credit and manipulation of capital depreciation allowances as a sole tool of productivity enhancement is far from an optimum effort and might actually be amiss. Indeed, the comparisons given in the table show clearly that a serious attempt to improve the productivity performance of the U.S. economy would require not so much a greater rate of growth in new investments as a substantial lift-up in the rate of growth in technological improvements to be embodied in the newly produced capital goods. But to achieve this the investment tax credit and manipulation of depreciation allowances as such can hardly be effective. Needless to say, lifting up the rate of growth of technological improvements in newly produced capital goods is also a sine qua non for enhancing the direct technological competitiveness of domestic industry in world markets and for this the investment tax credit, etc., is almost irrelevant.

Lagging Economically-Relevant R & D Effort

Analysis of the comparative international R & D effort is still at a stage of infancy and much of what has been done so far is misleading. The reasons for the latter are at least threefold:

TABLE 7. COMPARATIVE CIVILIAN-EQUIVALENT R & D EFFORT FOR PURPOSES OF ECONOMIC DEVELOPMENT[a] IN THE 1960's: U.S. VERSUS SELECTED INDUSTRIALIZED COUNTRIES

Country	Expenditures (Average For 1963-1967)			Employment of Professional Manpower[c] (1967)		
	$Millions (U.S.-Cost-Equivalent)[b]	% of U.S. U.S.=100	Per $ Worth of GNP, U.S.=1.00	Thousands (Full-Time-Equivalent)	% of U.S. U.S.=100	Per $ Worth of GNP, U.S.=1.00
United States	7,992	100	1.00	342.5	100	1.00
France	1,750	22	1.35	78.5	23	1.37
West Germany	2,098	26	1.44	100.7	29	1.61
Belgium	195	2	0.69	10.8	3	1.00
Netherlands	482	6	1.82	26.9	8	2.42
Italy	420	5	0.50	27.3	8	0.79
Common Market	4,945	62	1.22	244.2	71	1.38
United Kingdom	2,132	27	1.69	116.3	34	2.17
Western Europe, Total	7,972	100	1.14	402.5	118	1.34
Canada	406	5	0.64	24.2	7	0.88
Japan	1,667	21	1.21	197.9	58	2.86
Western Europe, Canada and Japan, Total	10,045	126	1.12	624.6	182	1.56

a/ R & D for purposes of agriculture, civilian nuclear technology, civilian industrial technology infrastructure, and civilian-equivalent R & D performed for defense and space purposes, assumed to amount to about 10% of the latter (about twice the percentage implied in Habridge House, Inc., Government Patent Policy Study, Vol. I, Final Report, p. I-10).

b/ Expenditures in currencies of individual countries converted into U.S. dollars by means of official exchange rates in force in 1965 adjusted for the relative cost of R & D in dollars in the United States vis-a-vis the other countries.

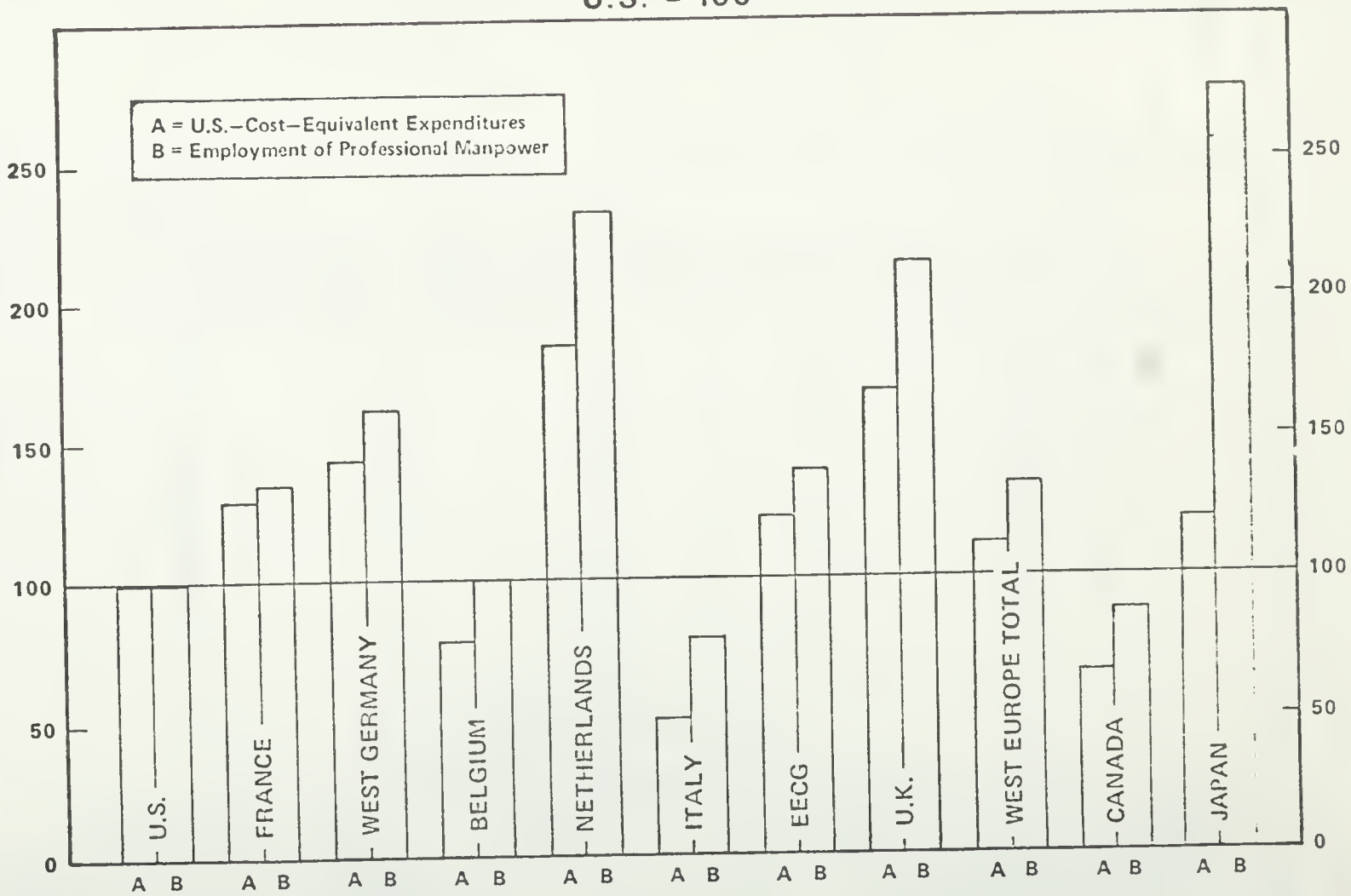
c/ The concept of professional manpower includes qualified scientists, engineers, and technicians.

Source of data on the individual country's expenditures in national currencies and full-time-equivalent employment of professional manpower: OECD, International Statistical Year for R & D, A Study of Resources Devoted to R & D in OECD Member Countries in 1963/64--Vol. 1; The Overall Level and Structure of R & D Efforts, Paris, 1967; Vol. 2: Statistical Tables and Notes, Paris, 1968; and International Survey of the Resources devoted to R & D in 1967 by OECD Member Countries, Vol. 5, Statistical Tables and Notes, Paris, 1970.

Relative cost of R & D: U.S. Department of Commerce and C. Freeman and A. Young, The Research and Development Effort in Western Europe, North America and the Soviet Union. An Experimental Comparison of Research Expenditures and Manpower in 1962, Paris: OECD, 1965.

Fig. 2. Comparative Intensity in R&D Effort for Purposes of Economic Development in the 1960's

U.S. = 100



Source: Table 7

TABLE 8. TRENDS IN U.S. INDUSTRIAL R & D EFFORT: SELECTED YEARS, 1953-1971

Year and Item	Total Industrial R & D Effort		R & D Effort Financed by Federal Government (Largely DoD and NASA)		R & D Effort Financed by Private Company Funds[b]	
	Expenditures, $ Billions (Current)	Employment of R & D Scientists and Engineers, Thousands (Full-Time-Equivalent)	Expenditures, $ Billions (Current)	Employment of R & D Scientists and Engineers, Thousands (Full-Time-Equivalent)	Expenditures, $ Billions (Current)	Employment of R & D Scientists and Engineers, Thousands (Full-Time-Equivalent)
1953	3.6	132.0[c]	1.4	45.0[a]	2.2	87.0[a]
1957	7.7	236.6	4.3	112.1[a]	3.4	124.5[a]
1963	12.6	333.8	7.3	161.7	5.3	172.1
1969	18.3	385.6	8.5	154.2	9.9	231.4
1971	18.3	362.4	7.6	124.6	10.5	237.8
Average Annual Growth Rates, % per Year						
1953-1957	21.0	15.7	32.5	25.5	11.5	9.4
1957-1963	8.6	5.9	9.2	6.3	7.7	5.6
1953-1963	13.3	9.7	18.0	13.7	9.2	7.0
1963-1969	6.4	2.4	2.6	-0.8	9.3	5.1
1969-1971	0.0	-3.0	-5.5	-10.1	3.0	1.4

a/ Estimated by the author on the basis of historical differences in expenditures per scientist and engineer in government-sponsored R&D vis-a-vis projects funded by the companies themselves.

b/ The company expenditures and employment do not include small company-financed R&D contracted to outside organizations such as research institutions, universities and colleges, etc. In 1970, for example, industrial firms contracted $243 million of R&D to outside organizations, or 2.4 percent of the R&D performed by the companies themselves.

c/ Average for 1952 and 1954.

Sources:

U.S. Department of Labor, Bureau of Labor Statistics, Scientific Research and Development in American Industry: A Study of Manpower and Costs, Bulletin No. 1148 (Washington, D.C. GPO, 1953) pp. 14 and 59; U.S. National Science Foundation, National Patterns of R&D Resources, Funds and Manpower in the United States, 1953-1972 (Bulletin NSF 72-300); ____ ____, Research and Development in Industry, 1970 (Bulletin NSF 72-309) and 1971(Prelim).

(1) Most of the comparisons of individual country R & D expenditures made so far include R & D for defense and space purposes. This produces a huge bias in favor of the United States. Its inclusion is justifiable only to the extent that this R & D produces civilian "spinoff."

(2) These comparisons are almost uniformly based on individual country expenditures in local currencies converted into U.S. dollars by means of official exchange rates. The recent wave of exchange rate realignments has clearly demonstrated that the use of official exchange rates for purposes of objective analysis is meaningless. In the case in point, it also produced a huge bias in favor of the United States.

(3) Whenever comparisons were made in terms of employment in R & D, the prevalent focus has been on so-called "qualified scientists and engineers." This, too, has tended to produce a heavy bias in favor of the United States because of international differences in educational systems. For example, a U.S. engineer with a B.S. degree is classified as a "qualified engineer," but a German graduate of an Ingenieur Schule, having completed as many years of education, is classified as a "technician."

These three purely analytical misconceptions, I might note, played a large role in the so-called "technological gap" issue which was widely debated in the highest international policy circles in the second half of the 1960's.

By avoiding these misconceptions, the data in Table 7 and Figure 2 realistically compare the economically-relevant R & D effort in the United States during the 1960's with that of other industrialized countries. The data show that though the United States was spending on and employing more professional manpower in economically-relevant R & D than any other single country, the relative intensity of the U.S. R & D effort can hardly be classified as that of a leader. Indeed, in terms of expenditures, the U.S. relative intensity--per dollar's worth of available resources (GNP)--was only about 80 percent as great as that of the Common Market countries and

Japan, and only about 60 percent as great as that of the United Kingdom. Measured by the number of professional manpower employed in this R & D, the relative intensity of the U.S. effort was almost 30 percent smaller than that of the Common Market countries, less than half that of the United Kingdom, and only about 35 percent of that of Japan.

Moreover, it is almost certain that by now the U.S. lag in economically-relevant R & D relative to other industrialized countries has increased rather than narrowed. Table 8 shows that in 1969-1971 the real growth in U.S. civilian (company-financed) industrial R & D, which represents the bulk of what I define as "economically-relevant," slowed to no more than 1.4 percent per year (implicit in the employment of R & D scientists and engineers) and that of DoD and NASA declined by about 10 percent per year. The growth in total U.S. civilian-equivalent industrial R & D in that period might, therefore, be assumed to have been about zero. Data for the R & D effort of all other countries in that period are still spotty, but we do know that in that period Japan's "head count" of full-fledged researchers (net of technicians) working in industrial R & D increased by about 35 percent, or a cumulative increase of about 16 percent per year,[7] and West German R & D expenditures by industry alone increased in the two years by 20.3 percent, or 9.7 percent per year (cumulative) in current prices, and, probably, some 2.2 percent per year (cumulative) in real terms. Total West German R & D expenditures in the 1969-1971 period, which are largely civilian-market oriented, however, increased by about

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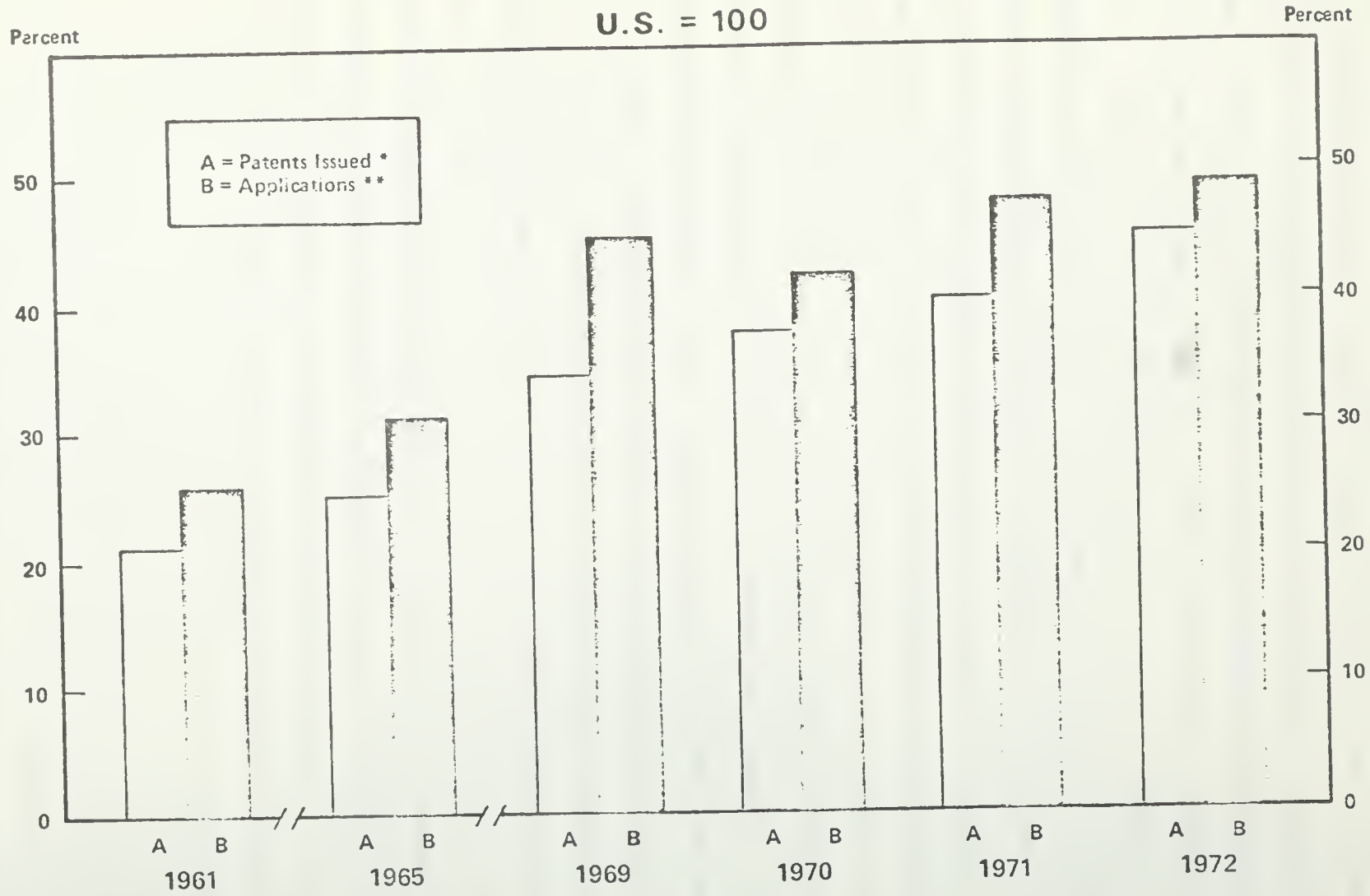
[7]Office of the Prime Minister, Statistics Bureau, Survey on Science and Technology, 1972, p. 333. (The source is in Japanese. Translation of the headings of relevant statistical tables was kindly provided by Professor Ozawa of Colorado State University.)

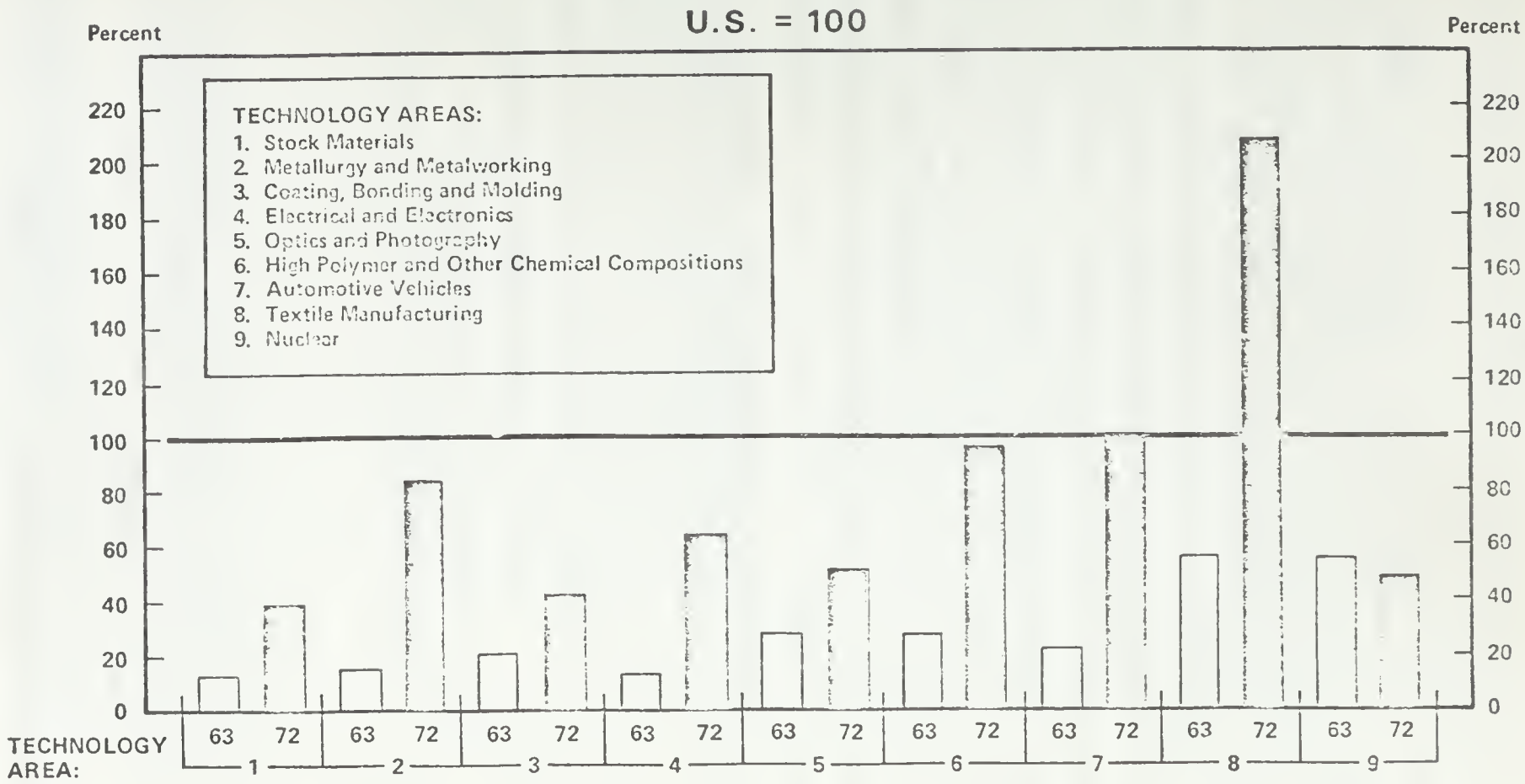
Fig. 3. Patents Issued by U.S. Patent Office to and Applications Received from Foreign Residents as Percent of Patents Issued to and Applications Received from U.S. Residents, Selected Years 1961—1972



* Excludes plants, designs and reissues
** Includes reissues, excludes plants and designs

Source: U.S. Department of Commerce, Patent Office

Fig. 4. Patents Issued by U.S. Patent Office in Nine Selected Technology Areas to Foreign Residents as Percent of Those Issued to U.S. Residents, 1963 and 1972



Source: U.S. Department of Commerce, Technology Assessment and Forecast, December 1973.

14 percent per year (cumulative) in current prices and, probably, some 6 percent per year in real terms.[8]

The R & D effort, however measured, constitutes only an input in a country's "inventiveness," which is the thing that makes the difference for the country's growth in technological know-how and, hence, growth in productivity and international competitiveness. Data on patents issued by the U.S. Patent Office to and applications received from U.S. and foreign residents (Figures 3 and 4) strongly imply, however, that the trends are probably similar in actual relative inventiveness.

In interpreting the ratios in Figures 3 and 4, I should note, the more revealing are the trends in patents issued and/or applied for by foreign residents versus U.S. residents rather than the relative numbers of patents issued and/or applied for because U.S. residents tend to file patent applications for all types of inventions whereas foreign residents usually seek the protection of U.S. patents for only the most important inventions.

U.S. Export of Advanced Manufacturing Technology in a "Naked" Form

The issue of U.S. technology transfers, especially what they do or do not do for U.S. companies, on one hand, and the United States at large, on the other, is terribly complex and subject to even greater controversy and confusion[9] than the issues discussed earlier. Since, in my firm judgment, this issue is of central importance for the U.S. situation under consideration here, I shall try to give as systematic an account of the conclusions of my analysis as the allowable space would permit.

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[8]The data on German R & D expenditures in current prices are from Der Bundesminister fur Bildung und Wissenschaft, Forschungsbericht (IV) der Bundesregierung, Bonn, 1972, p. 202. The estimates of "real" rates of growth represent the respective percentage increases in current prices deflated with percentage increases in the GNP deflator.

[9]Cf., e.g., National Science Foundation, The Effects of International Technology Transfers on U.S. Economy, July 1974, passim.

The international flow of advanced technological know-how might take place in a great variety of ways, but the two, and by far the most important, channels are transfers of advanced technology embodied in products produced in the United States and transfers in what I, for the sake of brevity, call a "naked" form. By "naked" transfers I mean sales of patent rights and licenses together with appropriate instructions, blueprints and other technical assistance on the part of the seller which permit the buyer, independent foreign company or a foreign subsidiary of the "selling" company, a quick and full exploitation of the know-how for a fixed or, and usually, "running" (proportional to sales or cost of relevant products) fee.

The relationship of the international transfer of advanced technology embodied in products produced in the United States to the international competitiveness of the companies, to the advantages of foreign countries and to U.S. trade as such should have become almost obvious in the preceding analysis of the deterioration of U.S. trade position. Briefly stated, if the companies have products embodying advanced technology (compared with that being produced abroad), this technology makes the products in question either totally new or superior to similar products embodying conventional (inferior) technology produced in other countries. For this reason, foreign demand for such products with respect to price tends to be either inelastic or, at most, to have a fairly low elasticity (meaning less than unity). This assures companies trying to market such products in international markets a stronger competitiveness in these markets, and this tends to make their overall sales and profits greater than otherwise would be the case. The foreign countries' advantages lie in their obtaining products which enable them to do things heretofore impossible or impractical and/or yield an economic or utilitarian <u>surplus value</u>. For the United States at large, finally, transfers of technology in such a form represent, on the one hand, practically the only means to overcome the disadvantages of high wages and high prices in its trade with other countries, and market-induced employment opportunities, growing tax base and reasonable equilibrium in balance of

payments, on the other. The foreign trade advantages that any country derives from comparatively higher quality technical know-how embodied in its products is generally of a monopolistic nature, since it can rarely be nullified by measures other than similar know-how. The point of emphasis is that for an as high-wage and high-price country as United States, this advantage is a sine qua non of its international competitiveness.

The nature of the consequences of U.S. exports of advanced technology in a "naked" form, however, depend, first, on the nature of economic activity abroad in which the technology in question is used and, secondly, on whose interest is considered.[10]

Transfers of advanced technology in a "naked" form usable in areas of foreign economic activity which are supplementary or noncompetitive with U.S. economic activities (such as oil and other extractive industries, utilities and retail trade) tend to benefit the importing country, the companies exporting it, and the United States at large. The reason these imports benefit the importing country is that they tend, by the definition of "advanced technology," to enhance the productivity and, hence, real income of the country, and they are frequently the sine qua non of the economic activity in question; and the reason the U.S. benefits is that such transfers command fees that otherwise would not be forthcoming to the companies and the United States, and if the technology in question is used in the production of products which the United States is importing, this technology tends to keep the cost of these products down and thus secure better "terms of trade" for the United States than otherwise would be the case, unless, of course, the product in question is priced not according to cost but according to the buyer's "opportunity cost," as is currently

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[10] As Paul B. Simpson of Oregon University demonstrated more than ten years ago, the same is largely also true with the export of capital. See his "Foreign Investment and the National Economic Advantage: A Theoretical Analysis" in U.S. Private and Government Investment Abroad, Raymond F. Mikesell (ed.), Eugene, Oregon: University of Oregon Books, 1962, pp. 503-538.

the case with Arab and other foreign oil, or simply what the market will bear. But even then the royalties obtainable from such transfers might make the transfers to be in the private as well as national interest.

However, transfers of advanced technology in a "naked" form usable in areas of foreign economic activity competitive with the activities of the United States, such as the manufacture of internationally traded goods, tend to be advantageous to the importing country and to the exporting companies, but detrimental to the well-being of the United States at large. The reason for the importing country's advantages are that these transfers speed up its rate of technological progress, frequently by "frogleaps," and at a cost usually much lower than would be its cost were the country to develop the know-how by itself;[11] such transfers represent an almost immediate substitute for imports, an at least potential base for export expansion, and an overall "blessing" to its balance of payments; and, of course, they are the basis for growing market-induced employment opportunities as well as the general material and psychological well-being of the country. U.S. companies' advantages lie simply in enhanced profitability and a potentially larger piece of the action abroad than they could get by exporting from the United States. And, finally, the United States at large gets the short end of such deals because the technology in question is usually new and thoroughly market-tested, the demand for products embodying this technology tends to be highly or at least fairly inelastic

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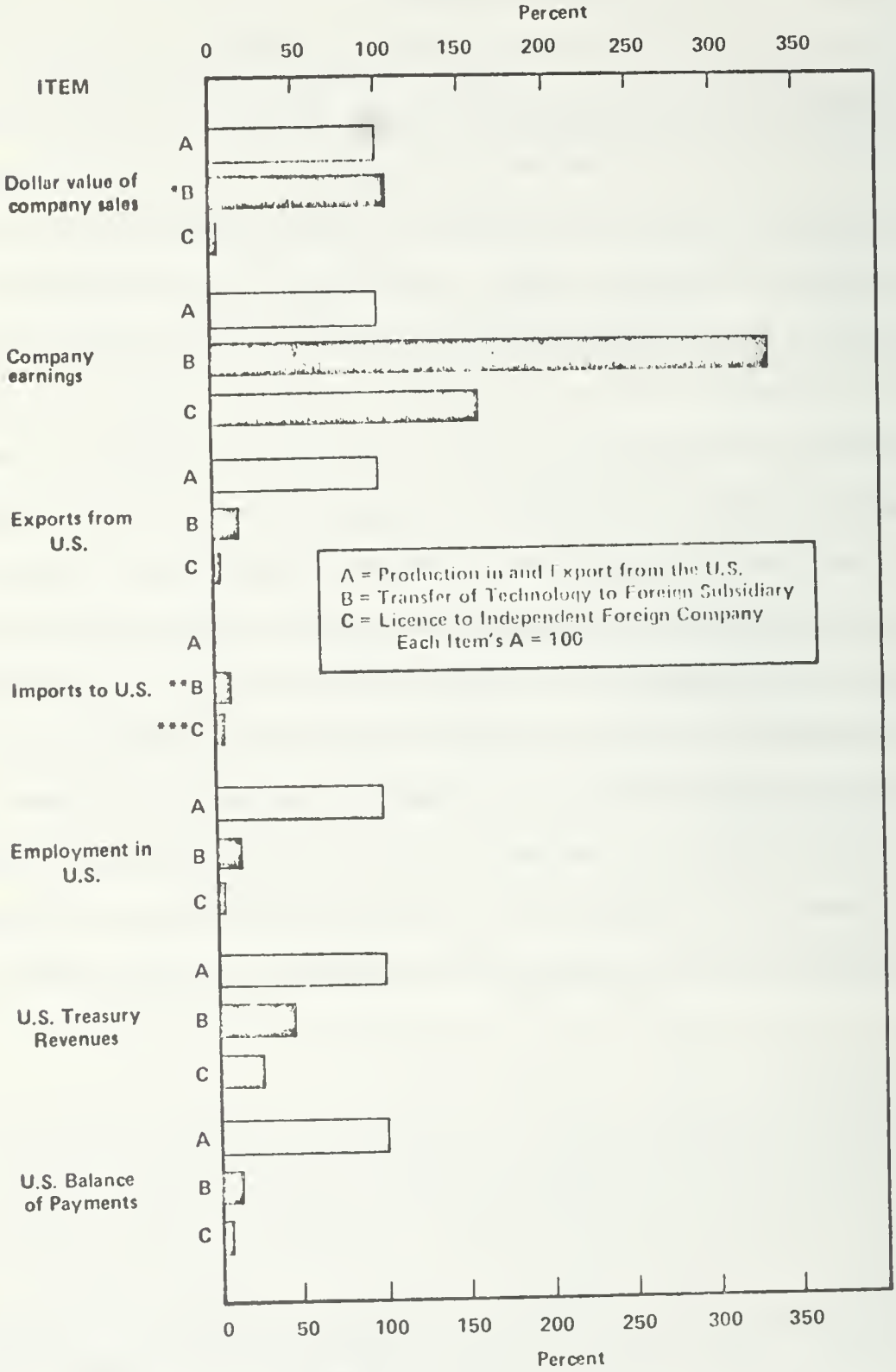
[11]From 1950 through 1972, Japan, for example, was spending on purchases of foreign technology from all countries about $158 million per year, merely 2/10 of one percent of GNP; and the aggregate Japanese outlays for that purpose amounted in that period to about $3.6 billion, not quite 3 percent of what the U.S. industry (own funds) spent on R & D at the same time and only slightly better than 1 percent of U.S. total expenditures on R & D in the same period. (Data on Japan's purchases of foreign technology for 1950 to 1962 are from Daniel L. Spencer and Alexander Woroniak, "The Feasibility of Developing Transfer of Technology Functions," KYKLOS, Vol. XX, 1967; and for subsequent years from Japan Statistical Yearbook, various issues, balance of payments series.)

Fig. 5. Illustrative Representation of the Implications of Export of Advanced and Market-Tested Manufacturing Technology in "Naked" Form Versus Production in and Export from U.S.



* = Sales only slightly larger than in (A) because of unit price differential abroad.

** = Relative to Export (B).

***= Nil or none in short run, large in long run.

(by the definition of new and market-tested technology), and, its export in a "naked" form, though commanding fees and in many instances conducive to some exports of products from the United States (capital goods and some components impractical to produce abroad), tends on the whole to be a substitute for exports of products from the United States as well as (at least in long run) a promoter of competitive imports. The value of the latter two ("displaced" exports plus promoted imports) tends to be much greater than the returns of fees and promoted exports of products even in cases where the would-be exports of the products embodying the technology from the United States were appreciably smaller than the sales of these products when produced abroad. The discrepancies in the relative magnitudes in question have implications not only for trade and balance payments, but also for employment, treasury revenues and many other variables (see Figure 5).

The extent and growth of actual transfers of U.S. technology in a "naked" form by major type between 1960 and 1972 might be judged by U.S. companies' receipts from and payments to foreign countries for technological royalties and license fees by industry, shown in Table 9. The estimates include the companies' transactions with foreign companies as well as their foreign affiliates, but they do not include the value of the exchanges of technology between United States and foreign companies nor the value of U.S. transfers in exchange for equity participation in foreign companies.

A series of alternative calculations analogous to those presented in Figure 5 based on the U.S. companies' aggregate receipts and payments for the transfers of manufacturing technology given in Table 9 and other relevant information imply that had the United States done nothing more than it did in promoting new technology in the United States, but fostered exports of products produced in the United States with the same force as it fostered the export of technology in a "naked" form, the

TABLE 9. U.S. COMPANIES' APPROXIMATE RECEIPTS FROM AND PAYMENTS TO FOREIGN COUNTRIES FOR TECHNOLOGICAL ROYALTIES AND LICENSE FEES, SELECTED YEARS 1960-1972, $ MILLIONS

Industry and Item	1960	1965	1970	1972[P]	Average Annual Growth Rate, % Per Year
Manufacturing Industry					
Receipts	275	525	1,097	1,437	14.7
Payments	38	71	132	166	13.1
Balance	237	454	965	1,271	—
Ratio of Receipts to Payments	7.2	7.4	8.3	8.7	—
Industries Other than Manufacturing					
Receipts	89	141	273	362	12.4
Payments	12	20	41	42	10.0
Balance	77	121	232	320	—
Ratio of Receipts to Payments	7.4	7.1	6.7	8.6	—

P - Preliminary

Source: U.S. Department of Commerce

kind of deterioration of U.S. trade and balance of payments as we have been witnessing since 1971 might well have come eventually, but perhaps not until the 21st century, rather than in 1971.

Thus far, the incidence of U.S. technology transfers has been spread fairly widely over most U.S. industries, but the heaviest concentration (some 80 percent or so) was in what I define as technology-intensive industries. The only major U.S. industry in the category of technology-intensive industries that has not done much of this exporting so far is the aerospace industry, which throughout the post World War II period has been responsible for the largest U.S. trade surpluses of manufactured goods of any single industry. By now, however, according to numerous press reports and speeches of key industry people, even this industry seems to be determined to do the same thing.[12]

CONCLUSIONS

I think my analysis makes it unmistakably clear that the problems the United States faces in the area of technology could radically change the country's socio-economic system and the course of its history. The reason for this is that continuation of current trends would lead, on the international front, to a decline in its economic and political position, pressure on the external value of the dollar

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[12]See, e.g., Forbes, May 15, 1973, p. 24; Aviation Week and Space Technology, May 28, 1973, pp. 27-28; Aviation Daily, May 16, 1973, p. 94 and June 5, 1973, p. 194; and Boeing News, May 17, 1973, p. 1.

resulting in periodic formal or informal devaluations,[13] and the gradual worsening of its "terms of trade" causing short falls in the standard of living. On the domestic front, these trends would result in a continued lag in productivity growth, mounting inflationary pressures, lasting double-digit interest rates, pressures for the redistribution of income ("reslicing of the pie), and lagging improvements or even a decline in the present level of the "quality of life."

Obviously these conclusions have rather pressing policy implications. Unfortunately, discussion of those implications would take this paper beyond its intended compass. Readers interested in reviewing proposals to avert the outlined trends might wish to consult another paper of mine which discusses such policy needs and some of the available options in considerable detail.[14]

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[13]In making this statement I am, of course, aware of the fact that a great many economists see devaluation merely as a change in accounting procedure, and a virtue of policy since in 1973, after the two devaluations, the United States achieved a trade surplus of $700 million (on balance of payments basis) compared with a $6.9 billion deficit in 1972. There is no denial that at times devaluation might be a necessary and useful tool of trade policy, but envisaging it as a standard tool of foreign economic policy is sheer nonsense. Moreover, I calculate that even if we assume that the $7.6 billion improvement in the U.S. trade balance in 1973 was totally attributable to devaluation, society's cost of this improvement amounted to over $10 billions' worth of sweat. (In 1973 U.S. imports of merchandise only amounted to $69.6 billion; in pre-devaluation dollars these imports would have cost about $56.8 billion, or $9.8 billion less. However, in addition to merchandise, quite a few other imports also became more costly so that the total cost to society was well in excess of $10 billion.)

[14]U.S. Technology: Trends and Policy Issues, Monograph No. 17, October 1973, Program of Policy Studies in Science and Technology, The George Washington University, Washington, D.C., obtainable from National Technical Information Service, U.S. Department of Commerce, Springfield, Virginia 22151, publication number PB 227-930, $5.50 (microfiche $1.45).

APPENDIX H

CAPITAL PRODUCTIVITY

APPENDIX H

This Appendix furnishes more systematic data concerning recent trends in productivity, especially trends in productivity of capital, in the private U.S. economy, than is provided in Appendix G. The Appendix consists of four tables:

Table H-1 gives basic data bearing on private-economy-wide changes in capital productivity from 1947 to 1973;

Table H-2 lists the same data in index form;

Table H-3 gives nine selected analytical ratios and indexes regarding the subject matter; and

Table H-4 gives six series of of estimated annual capacity utilization rates from 1966 through 1973.

Analytically this Appendix is self-contained and most of the inferences to be drawn are fairly clear-cut, but not all. To amplify the analysis set forth in the synopsis as much as possible, at least six observations should be noted:

1. Though the apparent trends in capital productivity over the entire time span covered in these tables have been subject to as many as five recessionary aberrations (1949, 1954, 1958, 1961 and 1970) and varying capacity utilization rates in other years, there can hardly be any doubt that the initial period of the time span was marked by growing capital productivity and the more recent period by a decline in this productivity.

Both of these are apparent in Column 10 showing that private GNP in constant prices was advancing substantially faster than nonresidential investment, implying growing capital productivity, until 1959-1962. Since then, however, nonresidential investment has been growing much faster than GNP, implying a definite decline in capital productivity since that time.

Measuring trends in capital productivity by the index of the growth of GNP relative to the growth in nonresidential investment, we should note, is an extremely crude procedure since the index represents incremental investment/output ratios put into an index form rather than incremental total capital stock/output index. It also allows no lag between the time of new investments and their full impact on productivity. Despite this shortcoming it is not entirely void of meaning, especially if such an index shows an as pronounced decline as is apparent in Column 10.

Moreover this decline is also evident in Columns 11 and 12 showing, respectively, ratios of fixed nonresidential capital stock to GNP for all the years and the index of growth of GNP relative to the growth of total fixed nonresidential capital stock, except that the onset of the decline dates with 1966 rather than 1962. The reason for the latter is that it takes quite a few annual investments ranging from $52 to $66 billion (it took 3) to produce a noticeable impact on the stock valued at $720 to $778 billion.

Some analysts would probably argue that this decline might be attributable to Governmental policy actions restraining output in 1969 and 1970 rather than any secular force, and that it is yet too small to warrant concern.

In our opinion that is not so. Had the decline been induced by the policy actions of 1969-1970, by 1971 and, especially, by 1973--the year in which the overall capacity utilization rate was about the same as in 1966, the ratio in Column 11 and the index in Column 12 would have returned to the 1966 level or better, as they did after recessions in 1954, 1958, and 1961, but they did not do that and by far. It is more than certain that in 1974 both will deteriorate further and most probably appreciably. The "smallness" of the decline so far depends on a value judgment. Had the overall dollar's worth of capital facilities in 1973 been as productive as it was in 1966, the private economy would have produced some $33 billion-worth (in 1958 prices) more goods and services than it did or it could have produced the same value of goods and services as it did with some $45 billion-worth less capital facilities than it actually used. These calculations are, of course, nothing more than crude orders of magnitude rather than in any sense precise measures, but they do provide rough dimensions of the problem and the basis for judgment as to whether or not there is reason for concern.

2. Concomitant with the decline in capital productivity, there has also been a decline in labor productivity, irrespective whether measured in terms of growth in GNP per person employed (Col. 13) or the growth of GNP per man-hour. Between 1947 and 1966 the growth in GNP per person employed averaged about 3 percent per year (cumulative), whereas in the 1966-1973 period the average amounted to 1.6 percent per year, or 47 percent less; and in terms of the growth of GNP per man-hour the 1947-1966 average was 3.5 percent per year, whereas in 1966-1973 only 2.5 percent, or about 30 percent less.

3. The chief force behind the labor productivity growth has been the growing value of plant and equipment per employee, usually called the capital/labor ratio. Between 1947 and 1966 this ratio increased by 54.5 percent (Table H-2, Col. 9) and GNP per person employed increased by 74 percent (Table H-3, Col. 13), or 36 percent more. Between 1966 and 1973, however, the capital/labor ratio increased by additional 16.6 percent, whereas GNP per person employed increased only 11.6 percent, or 30 percent less.

4. To use conventional economic terms, these trends are tantamount to the private economy's rapidly diminishing returns to further increases in both capital/output and capital/labor ratios. Facing this, the only way the companies can try to maintain their "historic" returns on capital investments and continue to pay "historic" real wages to labor is by continuously raising their mark-up in pricing their products, and this, of course, is tantamount to a "built-in" and continuous inflationary pressure.

5. These trends add to the inflationary pressures also via progressively growing demand for investable funds in for each additional unit of productive capacity and, hence (with profit rates and other national saving rates remaining fairly fixed), an upward pressure on interest rates.

6. Technically these trends can only be explained by either the economy's progressively increasing purchases of capital equipment which improves productive environment but does not enhance the productive efficiency as such and/or that the flow of both capital-saving and labor-saving technological innovations embodied in newly produced capital goods is substantially smaller than was the case in the past. In view of the big changes in question, both must be true.

The "Project Independence" and the implementation of the environmental quality laws already on the books, if pursued as presently contemplated, would obviously aggravate these trends, and perhaps make them totally unmanageable.

TABLE H-1. BASIC DATA BEARING ON CHANGES IN CAPITAL PRODUCTIVITY IN THE PRIVATE ECONOMY, 1947-1973

Year	Non-residential fixed investment, $ Billion in 1958 prices	Gross fixed non-residential capital stock, $ Billion in 1958 prices, (Constant cost series #1)	GNP originating in private economy in 1958 prices, $ Billion	Employment in the private economy (thousand)
	Col. (1)	Col. (2)	Col. (3)	Col. (4)
1947	36.2	428.7	277.5	46,298
1948	38.0	447.2	290.5	48,687
1949	34.5	461.8	299.4	45,578
1950	37.5	480.9	319.4	46,356
1951	39.6	500.6	339.5	48,186
1952	38.3	518.6	347.9	48,718
1953	40.7	536.3	365.7	49,848
1954	39.6	553.5	360.9	48,477
1955	43.9	572.7	392.0	50,210
1956	47.3	595.5	399.9	51,413
1957	47.4	615.9	405.6	51,225
1958	41.6	630.3	400.0	49,110
1959	44.1	645.2	428.0	50,795
1960	47.1	663.5	438.5	51,339
1961	45.5	680.1	446.6	50,648
1962	49.7	699.9	477.2	51,700
1963	51.9	720.0	497.1	52,163
1964	57.8	745.1	525.0	53,258
1965	66.3	778.1	559.8	55,102
1966	74.1	817.8	596.3	57,143
1967	73.2	855.3	609.7	58,303
1968	75.6	894.5	638.0	59,886
1969	80.1	936.6	655.3	61,688
1970	77.2	973.4	652.5	61,520
1971	76.1	1,006.8	675.4	61,177
1972	83.7	1,045.1	719.0	62,947
1973P/	94.4	1,090.2	763.0	65,370

TABLE H-2. INDEXES OF DATA PRESENTED IN TABLE H-1, 1947=100

Year	Non-residential fixed investment	Gross fixed non-residential capital stock	GNP originating in private economy	Employment in the private economy	Growth of gross fixed capital to growth of employment (capital/labor index= Col.6÷8x100)
	Col.(5)	Col.(6)	Col.(7)	Col.(8)	Col.(9)
1947	100.0	100.0	100.0	100.0	100.0
1948	104.9	104.3	104.6	105.1	99.2
1949	95.3	107.7	107.8	98.4	109.5
1950	103.5	112.1	115.0	100.1	112.0
1951	109.3	116.7	122.3	104.0	112.2
1952	105.8	120.9	125.3	105.2	114.9
1953	112.4	125.0	131.7	107.6	116.2
1954	109.3	129.1	130.0	104.7	123.3
1955	121.2	133.5	141.2	108.4	123.2
1956	130.6	138.9	144.1	111.0	125.1
1957	130.9	143.6	146.1	110.6	129.8
1958	114.9	147.0	144.1	106.0	138.7
1959	121.8	150.5	154.2	109.7	137.2
1960	130.1	154.7	158.0	110.8	139.6
1961	125.6	158.6	160.9	109.3	145.1
1962	137.2	163.2	171.9	111.6	146.2
1963	143.3	167.9	172.6	112.6	149.1
1964	159.6	173.8	189.1	115.0	151.1
1965	183.1	181.5	201.7	119.0	152.5
1966	204.6	190.7	214.8	123.4	154.5
1967	202.2	199.5	219.7	125.9	158.5
1968	208.8	208.6	229.9	129.3	161.3
1969	221.2	218.4	236.1	133.2	163.9
1970	213.2	227.0	235.1	132.8	170.9
1971	210.2	234.8	243.3	132.1	177.7
1972	231.2	243.7	259.0	135.9	179.3
1973 P/	260.7	254.3	274.9	141.1	180.2

TABLE H-3 SELECTED INDEXES BEARING ON CHANGES IN CAPITAL PRODUCTIVITY IN PRIVATE ECONOMY, 1947=100

Year	Growth of GNP relative to growth in nonres. fixed investment (Col. 7÷5x100)	Ratio of fixed capital stock to GNP (Col. 2÷3)	Growth of GNP relative to growth of gross fixed capital stock (Col.7÷6x100)	Growth of GNP per person employed (Col.7÷8x100)	Growth of GNP per man-hour (BLS data)	Growth of GNP per person employe relative to growth of fixed capital stock per person employed (Col.13÷9 x100)
	Col. (10)	Col. (11)	Col. (12)	Col. (13)	Col. (14)	Col. (15)
1947	100.0	1.55	100.0	100.0	100.0	100.0
1948	99.6	1.54	100.3	99.5	104.4	100.3
1949	113.1	1.54	100.1	109.5	107.7	100.0
1950	111.0	1.51	102.6	114.8	116.3	102.5
1951	111.8	1.48	104.8	117.5	119.8	104.7
1952	118.4	1.49	103.6	119.1	122.2	103.7
1953	117.2	1.47	105.4	122.9	127.2	105.8
1954	118.8	1.53	100.7	124.1	130.4	100.6
1955	116.4	1.46	105.8	130.2	136.2	105.7
1956	110.3	1.49	103.7	129.8	136.4	103.8
1957	111.6	1.52	101.7	132.0	140.3	101.7
1958	125.4	1.58	98.0	135.9	144.8	98.0
1959	126.6	1.51	102.5	140.5	149.9	102.4
1960	121.4	1.51	102.1	142.5	152.4	102.1
1961	128.0	1.52	101.5	147.2	157.6	101.4
1962	125.2	1.47	105.3	154.0	165.1	105.3
1963	120.4	1.45	102.8	153.2	170.9	102.7
1964	118.4	1.42	108.8	164.4	177.5	108.8
1965	110.2	1.39	111.1	169.4	183.6	111.1
1966	104.9	1.37	112.6	174.0	191.0	112.6
1967	108.7	1.40	110.1	174.5	194.9	110.1
1968	110.1	1.40	110.2	177.8	200.5	110.[illegible]
1969	106.7	1.43	108.1	177.2	201.3	108.1
1970	110.2	1.49	103.6	177.0	203.5	103.6
1971	115.7	1.49	103.6	184.1	211.8	103.6
1972	112.0	1.45	106.3	190.5	219.8	106.2
1973 P/	105.4	1.43	108.1	194.8	226.2	108.1

Sources: Bureau of Economic Analysis and BLS.
P/ Preliminary.

TABLE H-4. SELECTED ESTIMATES OF CAPACITY UTILIZATION RATES IN THE PRIVATE ECONOMY, 1966-1973

(Percent)

Year	Bureau of Economic Analysis, Commerce, All Manufacturing, Average of 4 Survey Months[a]	McGraw Hill Publishing Co., December of the Year		Wharton School, University of Pa. Average of 4 Quarters		FRB, Average of 4 Quarters
		Manufacturing	Manufacturing, Mining, & Utilities	Manufacturing	Manufacturing, Mining, & Utilities	Materials
1966	86[b]	88	NA	96	97	92
1967	84[b]	86	86	93	96	87
1968	85	85	85	95	97	89
1969	85	83	83	96	98	90
1970	81	79	79	88	89	86
1971	80	79	79	85	86	85
1972	83	85	85	90	90	90
1973	86	88	88	96	96	93

a/ March, June, September and December

b/ Average of June and December

APPENDIX I

TECHNOLOGY POLICY NEEDS

Excerpted from

U.S. TECHNOLOGY: TRENDS AND POLICY ISSUES

by
Michael Boretsky
U.S. Department of Commerce

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Policy Needs

The preceding discussion might have made it appear that the only thing that the United States needs to cope with the trends in question is more R & D. As far as I am concerned, this is not so. More economically and "quality-of-life" oriented R & D is an important element of U.S. needs, but it is far from everything. In my judgment, what the United States needs (please note I am addressing myself here to the needs, not options) is a comprehensive national technological policy. In broad terms I define such a policy simply as the sum of deliberate actions on the part of Government aimed at the increase and improvement of technological options and alternatives for all productive units in the economy for the furtherance of national objectives within the constraints of available and/or accessible resources.

At this time there are bits and/or pieces that might fall into the scope of this definition, but the country does not have a coherent policy per se. As I see it, the institution of such a coherent policy, in the conditions of the kind of market economy and Governmental institutions as we have today, would have to have a dozen or so strategic elements. These would have to include:

(1) Intelligent planning and continuous review of the country's level of effort in the enhancement of technological development by major processes and sectors of the economy. By "intelligent planning" I mean essentially the same kind of planning that the late Gerhard Colm, Chief economist of the National Planning Association for many years, described as concerted planning, and defined as a procedure in which

the benefits of coordination of purpose and activity are combined with the individual freedom of choice and without stifling centralized controls.[69] At this time we have nothing of this sort, nor, as I demonstrated in this paper, do we know where we are heading.

(2) Development and institution of policy measures assuring an optimum supply of appropriately trained scientific and technological manpower, both as to various educational levels and within each level (including supply of technicians and "craftsmen"), consistent with the country's prospective (long-term) level of effort in technological development. We have virtually nothing of this sort and how damaging this has been to the country's interest might best be seen in our implementation of President Kennedy's decision to "go to the moon." The goal, including the deadline, was decided upon in terms of an R & D budget without much, if any, regard to the availability of S & T manpower. To obtain the necessary manpower, NASA and its contractors were forced to compete with the alternative employers of S & T manpower, notably the civilian-market-oriented technological endeavors of industry as well as the pure defense segment of the "military-industrial-complex." In the process

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[69] Cf., Gerhard Colm, "The Next Step: Concerted Planning," State and Local Government Planning Proceedings, 9th Annual Conference of the Center for Economic Projections, National Planning Association, October 24, 1968, Report 69-J-1. I owe this reference to Nestor Terleckyj.

of this competition, salaries of scientists and engineers skyrocketed and this increased not only the cost of "going to the moon," but it also significantly hurt the operations of other segments of industry as well as the overall rate of the "bread-and-butter" advance of the civilian economy. Equally damaging to the economy might also prove to be the lack of offsetting measures which would counter the reduction of the enrollment in the S & T colleges and universities induced by recent cuts in NASA's and DoD's R & D budgets. This reduction, if permitted to persist for a few more years, would severely damage the technological viability of the country for the decades to come.

(3) Development and institution of general and meaningful (effective) incentives for an optimum level of private investment in R & D. At this time we have no such incentives and, to my knowledge, there is formidable opposition toward the institution of such incentives. The institution of such incentives, however, is called for by both pragmatic and theoretical considerations. From a pragmatic point of view, the need for such incentives arises from the fact that the flow of technological innovations in the United States generated by market forces alone has been inadequate for quite some time and, being technologically the most advanced country in the world, the United States simply does not have any other way to assure a substantially better stream of such innovations and, hence, an adequate long-term rate of progress, except through fostering its own R & D effort by means of Governmental incentives (unlike other countries which, being generally at a lower level of technological development, have also the option of

importing innovations from abroad). Theoretically the need for such incentives is called for, or at least can be rationalized, on grounds of foregone social benefits resulting from an inadequate flow of innovations because of the lack of such incentives. Estimates to that effect are not available, but it is a theoretically demonstrable fact that in a competitive economy, including such an imperfectly competitive as is the U.S. economy, private investors in R & D leading to technological innovations, especially those favoring growth in productivity and the international competitiveness of the economy (including strong external value of the dollar), never capture all the benefits that accrue to the economy. In most instances, if not all, the social portion of the benefits greatly exceeds the private portion and frequently by a multiple factor (think, for example, about the social benefits or the "returns" to the development of artificial fertilizers and agricultural insecticides compared with the returns to the companies which developed these advances in agricultural technology, no matter how crudely both are calculated). Private investors invest in R & D only to the extent which is justifiable by their own expected (discounted) returns to the invested funds compared with all alternative investments and without any consideration of social benefits thereof. Other things being equal, the alternative investment opportunities to private investors, which at times might not be at all beneficial to society and occasionally might even be detrimental to society's interests, are as good as investments in R & D. The role of the incentives in question is, with as little fraction of the total cost as possible, to swing the

decisions in favor of R & D and thus assure the social returns of the total investment. Precise cost/benefit ratios of various potential schemes of such incentives cannot be readily furnished, but my crude calculations along these lines lead me to believe that sensible incentives would yield social benefits at a better than bargain price.

(4) Securing an optimum public investment in R & D in social infrastructure, including those relevant for society's "quality-of-life," and in civilian-market-oriented technological opportunities where for various reasons (such as industry fragmentation, excessive risk, etc.) the market forces and general incentives cannot assure an optimum level of effort. We have a number of mission-oriented agencies which have been trying to do this, but the attempts to "fill the gaps" of civilian markets have been rather haphazard (largely in response to "vested-interest" pressures, such as in agriculture and research for greater use of coal. R & D in desalinization of sea water and civilian nuclear technology are the only two areas in which vested-interest pressures played little or no role).

(5) Securing the proper industrial environment for the optimum utilization of new technology of domestic and foreign origin. By the proper industrial environment I mean adequate availability of venture capital; availability of incentives conducive for continuous modernization and new investment in plant and equipment which historically has been the chief vehicle for the diffusion of new technology; absence of institutional barriers against use of new technology (such as

restrictive work rules, several thousand local building codes, etc.); and the absence of heterogeneous standards and measurements. At this time we probably have fairly adequate Governmental incentives for the modernization of obsolete plant and equipment (new depreciation rate allowances and investment tax credits), but the restrictive work rules and the thousands of local building codes hinder the development and diffusion of new technology and the availability of venture capital is getting worse because of the rapidly increasing internationalization of U.S. capital markets and the apparently irreversible trend toward progressively higher interest rates.

(6) Securing the proper Governmental legal and regulatory posture with respect to the development and utlization of new technology, especially the absence of excessive barriers to cooperative R & D and utilization of the fruits thereof arising out of anti-trust laws and regulations, the absence of arbitrary pollution control and consumer protection type regulations, and the absence of arbitrary rate setting of utilities that inhibit the introduction and/or diffusion of new technology.

(7) Development and institution of patent policy that would tend to optimally stimulate the strive for development of new technology rather than to hinder it. At this time, there is considerable and healthy debate going on as to what kind of policy would be most appropriate for the purpose (short, say five years or so protection, or twenty or more years protection, that is, longer than we have today), but there also seems to be a disquieting trend of court verdicts underway

which imply the courts' questioning society's needs for any protection of property rights in the area of industrial and technological know-how on the part of private individuals and institutions.

(8) A Governmental procurement policy that would be conducive to the diffusion of new technology. Unlike in the area of defense and space the relative importance of such a policy for civilian technology is probably not great (except in the area of data processing and power generating equipment), but in a pragmatic concerted effort use must be made even of the forces that might only marginally contribute to the overall objective.

(9) Development and institution of policies that would assure optimum benefits of the country's technological effort for foreign trade and the balance of payments There are a number of policies presently on the books whose effect seems to be the opposite In the face of continued (and, at least in some important cases, increased) efforts by other countries to import advanced foreign technology in a naked form as rapidly as possible, on one hand, and still extremely powerful incentives for U.S. companies to export such technology also as rapidly as they can (see Tables 8 and 18), on another, it is practically unthinkable that the United States could counter the unfavorable trends of concern here, or even do much in other aspects of the overall technological policy, especially the institution of governmental incentives for an increase in private industrial R & D, without a drastic change in policies affecting transfers of technology in a naked form that are presently in force.

(10) Development of adequate and rationale safeguards against the ill use of new technology without stifling controls. As noted earlier, some of the rules and regulations we are promulgating now would seem to be based on arbitrary criteria. In the long run they might produce more harm than good.

(11) Institution of a system of "enlightened" timely publications which would inform the public about the social consequences of major technological changes—both beneficial and not so beneficial—and the available alternatives. The lack of such publications has probably been a factor in the growth and popularity of the "anti-technology movement" as well as actual delays in the diffusion of nuclear power-generating technology.

(12) Finally, there must be an institutional focal point of continuous responsibility within the executive branch of U.S. Government for the state of technology in the economy at large, statutorily empowered to initiate new policies as well as changes in old policies which became either inconsistent with the nation's needs or do not work effectively. At the present time there are about two dozen agencies having some responsibilities for the state of affairs in U.S. civilian technology, but there is no focal point. The prevailing view seems to be that this [illegible] is the thing that "brought the country's technology" to the foremost of the world and that it will continue to serve the country well in the future.

In my judgment, the merit of this "pluralism" is even worse than the "merit" of the pluralism in the area of foreign economic policy formulation of up to a few years ago. The pluralism in the formulation of foreign economic policy worked "well" when the things and the country would probably have done well or better without the help of the many agencies which made the policies; however, when things got bad, the Government was forced to set up a focal point of responsibility (Council on International Economic Policy).

The heart of our "pluralism" in the area of technological policy formulation are (small) task forces, usually appointed for a short time to work out solutions to specific problems. The mechanism of task forces might and probably does work well when the problems the task forces are supposed to attack are narrow and technical in nature, the members of task forces are true experts in the problem area, and the members of task forces are adequately backed with staff. However, (1) when the problem areas which task forces are supposed to attack are broad and involve not only technological, but also social, economic and political considerations, and having both national and international objectives, and all of this is true in most technological problems facing the nation at large at this time; (2) when members of task forces are chosen not necessarily on the basis of their genuine expertise but largely on the basis of the need for agency representative or vested-interest groups and their availability, and this is true in most, if not all, cases; and (3) when members of task forces are not provided with back-up staff, but are supposed to do their own research

in the problem area and other staff work, and this is almost the rule in our system, then what such an adhocery system of task forces is likely to produce is, at best, a matter of chance.

Nor is the feebleness of the principal mechanism of our technological policy formulation all that there is to it. It is greatly compounded by a number of powerful institutional and other adversities, most notably the lack of effective continuity in the leadership of the agencies having formal responsibility for parts of the country's overall state of technology (the tenure of office of the people in question is usually far too short to acquire a proper understanding of the problems, let alone to promulgate policies that might be called for); the progressively rising budgetary constraints of the Federal Government; the dominance of short-term criteria in the Government's economic policy making and the lack of short-term political accomplishment appeal of most technological programs; the growth of extremely vocal anti-technology philosophy within the elite of American society; the pressures of conflicting private vested-interest groups; and the like.

I should like also to note that in contrast to the United States all other major industrialized countries have by now at least some sort of central point and continuity of Governmental responsibility for the state of technology in their economies at large, and most of them are quite elaborate and, evidently, quite effective. In short, by now the United States has an "entirely different world" to cope with than it used to have.

To me, the continuation of the kind of "pluralistic" system in the area of technological policy formulation as we have would be tantamount to a more or less continuation of current trends in our technology, and, of course, the kind of consequences as I outlined in the beginning of this section.

Each of the twelve strategic elements listed above might be instituted in a number of different ways. Defining and analyzing all the options that are available in this regard would require a major systematic effort which I have not been able to exert so far. However, in the context of my official and semi-official work I have given a considerable amount of fairly systematic thought as to how one might go about enhancing R & D for purposes of increased productivity growth and the international competitiveness of domestic industry and what would be the relative merits of the options that are available for the purpose. Enhancement of the R & D in question, I should note, might not be the most important element of the (comprehensive) national technological policy in terms of what it would actually accomplish, but it certainly would be the most costly as far as the Government's financial commitment is concerned, and, therefore, the policy opted for would probably prove the most difficult decision that the Government will have to make.

Options for Enhancement of Private R & D to Increase the Economy's Productivity Growth and the International Competitiveness of Domestic Industry

There are about a dozen distinct options that might in principle be used for the purpose. However, we are interested not only in their usability in principle, but also in what we could accomplish by using them, would their use be consistent with society's other objectives, etc. Prior to "naming names," therefore, I propose to take explicit notice of at least the principal criteria by which we must judge the usability and/or adaptability of the options that are available.

(a) The first and perhaps the foremost criterion is, of course, the size of the job which the policy or policies opted for must do. It is simply huge. This is implicit in the scope of what must be done in order to achieve the stated objectives: lifting up the technological level of literally tens of thousands of capital equipment items and/or developing thousands of entirely new equipment (to be used not only in industry proper, but also in Government and other "service" sectors of

the economy), thousands of consumer durables, hundreds of synthetic types of raw materials, etc. . The huge job to be done is also implicit in the fact that by now the relative intensity of economically-relevant R & D effort of foreign countries, a key factor in international technological competitiveness, might exceed that of the United States, on the average, by at least 50 percent. In addition, foreign countries, largely because of their lower level of development, have easier access to advanced foreign technology, than we have. By crudely quantifying this advantage I estimate that our relative (R & D-equivalent) effort for purposes of economically-and international-competition-relevant technological advance is only about 40 percent as great as that exerted by other industrialized countries. This implies that if the U.S. seriously wanted to restore the international competitiveness of its industry, it should plan for at least a doubling of its R & D effort of concern here (not immediately, but eventually and the sooner the better. The lack of appropriately trained S & T manpower would prevent a large immediate expansion).

(b) There is no way to induce that big an expansion, if any, of the private economically-relevant R & D effort without substantial outlays, one way or another, of public funds. The outlays of such funds can be made only with the approval of Congress.

(c) Congress, as usual, will try to minimize outlays of public funds as much as possible and it appears to be out of the question that Congress would approve outlays of public funds that would be equivalent

to doubling the current level of the effort in question. The usability of any policy that the Government might opt for must be judged by the pull of private funds.

(d) Congress is unlikely to approve programs involving large outlays of public funds that might directly or indirectly benefit special groups, even "imaginary groups"--the kind that might be created in the process of setting "priority areas" of civilian-market-oriented technological development. Therefore, the more general the policies the Government would opt for the easier they will be to promulgate.

(e) The less bureaucracy build-up the policies opted for will require, the easier it will be "sold to public" and the easier it should be to promulgate it in Congress.

(f) The less bureaucractic control of the direction of technological development the policy or policies opted for will require, the more private initiative the policy will induce and the less resentment it will evoke on the part of private interests and on the part of Congress.

(g) Enhancement of new technology for the two stated objectives requires not only research, but also the development and commercialization of the fruits of research. The effectiveness in the latter depends on the availability of experimental base and marketing mechanism within the organization performing R & D, and/or at least strong ties of the R & D performer with outside organizations having the experimental base and marketing mechanism.

(h) R & D projects require highly sophisticated management. The less experienced the manager, the more errors and failures there will be.

(i) Governmental sponsorship of R & D involves extremely intricate proprietary issues with respect to which the Government has no clear-cut policy and it is not likely to have it soon. Therefore, the more direct Government's sponsorship of R & D, the more likelihood there will be for problems, litigation, etc.

(j) The policy or policies opted for should permit at least a crude periodic evaluation of their (long-term) results.

There may be some criteria, which I have not mentioned, that should be considered in evaluating the relative merit or usability of the options that are available in principle, but I do not think they would change the general propositions which I make by considering only the ten listed above. With this in mind, let us see what can be used.

(1) Natually the first option that comes to mind is "beefing up" the R & D level at universities via Government contracts or tax credits to private companies sponsoring the "beefing up." Universities are known to have made great contributions to our defense and space effort, and occasionally contributed to the development of civilian technology (e.g., computers at the University of Pennsylvania, and the numerical control of machine tools at MIT). The advantages of this route would be a readily available and fairly good management of the projects at the performer level; the program would yield some financial help to the universities which they badly need; the policy would easily render

itself to periodic evaluation of its results; and Congress would probably approve it if it were convinced that this is the viable route. The limitations of this route, however, would simply be overwhelming: the universities most probably would not want to expand their R & D facilities much beyond what they presently do, let alone by as much as the "job to be done" needs; the universities have little experimental bases for industrial technology and none whatsoever in marketing experience and their ties with industry are very weak and are not likely to become much stronger no matter what the Government would do (because of the "natural" striving for independence on the part of professors); the proprietary problems would probably be stupendous; in case contracts would be the method, the Government bureaucracy administering the program would zoom; and the cost of the expanded R & D effort would be 100 percent, or actually more because in the expansion some if not many "technological opportunities" would be tackled which private industry would have tackled in due course with its own funds anyway. All things considered, this route is not the kind that could accomplish much or one that the country could opt for (note that this judgment refers to industrial-type of R & D and not to basic research).

(2) As a second option, we might think of expanding the R & D effort via federally-funded research centers and (largely federally-funded) "nonprofit-making" private research organizations. The advantages in following this route would be the readily available expert project managers and in the future the long-term results would be fairly easy to assess. The disadvantages, however, would be almost as

overwhelming as with the universities, plus--there would be strong resentment to this route on the part of private enterprise and Congress would probably not approve it because of the potential growth of Government's control of civilian technology.

(3) The third option is to support small (independent) innovative entrepreneurs via contracts and/or cost sharing. This option, I should note, is quite popular with many economists and Government officials,[70] due, in large measure, to an idea promulgated by a 1967 Department of Commerce study[71] that the bulk of the technological progress of the country has been generated not by large corporations, but by small entrepreneurs and/or independent inventors. Most of the information on which this idea was based, however, referred to the late 19th century and early part of the 20th century. Since World War II, as shown in Table 22, the small innovative entrepreneurs' contribution to the country's overall technological progress might be equated to the polaroid camera, xerox copying device and a few inventions of Texas Instruments if Texas Instruments could be considered as a "small entrepreneur." In following this route for the purpose at hand the

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[70] Cf., for example, Economic Report of the President, 1972, Chapter 4.

[71] U.S. Department of Commerce, Technological Innovation: Its Environment and Management, Washington, D.C., 1967, Chart 13, p. 18.

TABLE 22. TECHNOLOGICAL BREAKTHROUGHS ORIGINATED IN THE UNITED STATES SINCE WORLD WAR II

Breakthrough	Inventor and/or Sponsor	Year
Streptomycin	Selman A. Waksman/Merck & Co.	1943-1944
Polio vaccine	Jonas E. Salk/University of Pittsburgh	1954
Dithiocarbonate fungicides (Synthetic organic fungicides	DuPont, Rohm and Haas	1945
Polyamides (synthetic fiber)	DuPont	1935[a] 1939[b]
Acrylic (synthetic fiber)	DuPont	1941-1947[a] 1950[b]
Electronic transitor	Bardeen, Brattain and Shockley - Bell Labs	1947
Square-loop ferrities	Albers-Schoenberg/MIT, General Ceramics	1949-1950
Integrated electronic circuits	Texas Instruments, Fairchild & Westinghouse	Early 1950's
Electronic telephone switching gear	Western Electric	1955
Satellite communications systems	AT&T, TRW, Hughes Aircraft/ Department of Defense	1958
Digital computers	University of Pennsylvania/ Army; MIT, Remington Rand	1945-1951
Analogue computers	National Bureau of Standards, Reeves Instruments, Johns Hopkins-Curtis Wright	1945-1946
Magnetic "bubble" memories	Bell Labs	1966[a]
Nuclear magnetic resonance spectroscopy	Bloch & Hansen Varian Associates	1945[a] 1949[b]
Infra-red spectroscopy	American Petroleum Institute Perkin-Elmer[b]	World War II[a] 1946[b]
Laser	Bell Labs, Hughes Res. Lab	1960
Turbo-generators working with super-critical pressures and temperatures of steam	Babcock-Wilcox GE, Westinghouse	1957 Late 1950's

TABLE 22. TECHNOLOGICAL BREAKTHROUGHS ORIGINATED IN THE UNITED STATES SINCE WORLD WAR II--Cont.

Breakthrough	Inventor and/or Sponsor	Year
Nuclear reactors for electric energy generation	GE, Westinghouse/AEC, Navy	1954
Thin tin plate	U.S. Steel	Late 1950's
Taconite processing	E.W. Davis[a]/University of Minnesota Reserve Mining	1912-1922[a] 1955[b]
Numerical control of machine tools	MIT/Cincinnati Milacron and Giddings & Lewis	1954-1955
Electromilling of metals	Anocut Corp. and Elox Corp	Early 1950's
High energy rate forming of metals	USI Clearing and Verson Allsteel Press	1955
Vertical take-off aircraft	Bell Aircraft-NASA, Convair-Navy	Mid 1950's
Continuous mining machines	Joy Mfg.	1948
Synthetic diamonds	GE	1955
Fiber Optics	Armour Research	1960
Deinking of used newsprint	Garden State Paper Co.	1952
Tape controlled electrosetting machines	Intertype	1950
Mechanical color separation	Printing Development Inc./ RCA	Early 1950's
Shadow-mask color TV picture tube	RCA	1947
Polaroid photography	Edwin Land	1947
Xerography	Chester Carlson/Battelle Dev. Corp.	1937[a] 1946[b]

a/ Development
b/ Commercialization

Source: Compiled by the Department of Commerce

advantages would be the potential intensification of competition and political "sex-appeal"--hence, it would probably be easier to promulgate than some other routes if Congress were convinced that this is the proper route. However, in terms of the criteria listed above, the disadvantages of this route would not be much smaller than with universities and federally-funded research centers: only a trickle of the needed expansion of R & D could be accomplished; most small enterprises generally lack the experimental bases and marketing expertise; whatever expansion would be achieved the Government's cost would not be much less than 100 percent because of the generally weak financial position of small enterprises and, in following this direct-support route, the Government would finance things that business at large would do in due course with its own funds; and there would be many proprietary problems. All things considered, I do not think this is a viable option, especially if it were used as the sole route.

(4) The fourth option is to expand the R & D via <u>contracts to and/or cost sharing with firms having excess R & D facilities and managerial talent due to cut-backs in defense and space programs</u>. The advantages of this route would be utilization of idle R & D facilities (originally funded by Government) and experienced management and the results of the program could probably be kept track of for future assessment. However, the disadvantages would be that the projects would be carried out with a defense-and space-type R & D philosophy, since most of the firms in question are heavily indoctrinated and still predominately oriented toward defense-and space programs markets; the

firms generally lack marketing expertise in nondefense markets; the cost of the expansion to the Government would tend to be close to 100 percent or more because many things would be financed with public funds which private business at one time or another would do itself; proprietary problems would plague the program; the route would require a large Governmental bureaucracy to administer; and the public, and perhaps Congress, would look at these programs as a "special interest" enterprise and possibly even as a "disguised" military-industrial effort.

(5) We might also try to expand the R & D in question via contracts and/or cost sharing with manufacturers of "capital goods," as some advocate. The advantage of this route would be experienced management of projects, since capital goods producers do quite a bit of their own R & D; the manufacturers of capital goods, in the aggregate, are aware of the current state of U.S. technology in great detail and should have some insight as to what are the most promising opportunities for further progress; they also have the experimental bases as well as marketing expertise; and the results might fairly easily be assessable in the future if proper records were kept for the program. However, in following this route the technological opportunities in the area of consumer durables, raw materials, perhaps energy, and other technology not entering the economy via existing capital goods would be left out; in contact arrangement, the projects would not be carried out by the most talented manpower (the most talented would probably be employed on the firms' own projects); in many instances (probably all most

promising projects) the Governmental contacts and/or cost sharing arrangements would substitute for the industry's own effort (at one time or another); the route, as others of a direct-support nature, would require a large bureaucracy to administer the projects; the cost of the expansion to the Government would be large; proprietary problems would plague the program; and the public, and perhaps Congress, would probably look upon it as a "special interest" enterprise.

(6) The sixth option is to expand the R & D via contracts to and/or cost sharing with all kinds of business firms having demonstrable capability to do research, developing and marketing new technology. The advantages and disadvantages of this route would be essentially the same as with the manufacturers of capital goods (option 5) except that the technological opportunities would be tackled on a more comprehensive scale.

(7) One might also try to do the job by establishing a national foundation for industrial R & D which would disburse a certain magnitude of appropriated funds in the form of grants in accordance with projected cost/benefit ratios or other criteria that it might develop for the purpose. The advantage of this route would be that it would assure the availability of funds for really meritorious proposals. But in many instances it most certainly would be substituting public funds for private funds, it would require a large bureaucracy to administer the disbursement of grants, and the extent of enhancement of the country's R & D effort in question, that is, above what market

forces would generate without such a foundation, might be nil, if any, if the annual appropriations for the purpose were not sufficiently large.

(8) It might also be possible to enhance the country's R & D effort in question via interest-free or low-interest Governmental loans to qualified ("bona fide") performers to be disbursed by a specially established bank. The net effect of such loans would be the subsidization of R & D in question by the amount of the difference between the interest rate charged by commercial banks and the charges, if any, by the bank. The program would probably generate more R & D than the market forces would do without it, especially in the area of "big ticket" projects of large corporations, but on a whole not necessarily much more, because of the relatively small "marginal" incentives, and at a substantial cost to Government because the loans would have to be available not only to those performers who would not do the R & D unless such loans were available, but also to those who would do it anyway. In addition, the bank in question would have to be manned by a large staff of experts who could make a larger contribution to the country's R & D effort in question by doing actual R & D rather than administering the Government's program.

(9) One might also try to enhance the R & D in question via the

British route,[72] namely through the establishment of a publicly funded and profit-oriented National Research and Development Corporation which would contract for research and/or buy readily available patents for new know-how from private individuals and companies that is of potential benefit to the objectives but is unlikely to be developed and commercialized by private interests; develop or contact for the development of the know-how; and sell the developed know-how to private interests for commercialization on a royalty basis. The advantages of this route might be a fuller utilization of the country's innovative potentialities, especially of that residing in "lone wolves"; fostering of small innovation-oriented companies (and, hence, fostering competition); and the results of the program could be assessed fairly easily in the future. Its disadvantages, however, would also be formidable: the initial public cost of the innovations would tend to be close to 100 percent; the profit motive would undoubtedly push the corporation toward most promising innovations which in due course private interests would develop anyway and, hence, there would be at least some

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[72]In addition to Great Britain, this method is being experimented with by France, Japan, the Netherlands and, in some form, other countries.

substitution of public funds for private funds; and Congress would probably never appropriate sufficient funds to make the program as big as the country needs. This route might be good, or even ideal, for small and/or countries still at a low level of technological sophistication (and, hence, relatively narrow scope of developmental options), but for as big and technologically as developed country as is the United States this route would probably not do much good.

(10) There is also the option of enhancing the R & D in question via speical tax incentives (credits) or equivalent cash payments to performers with no tax liability for all private investments in R & D that would meet certain criteria consistent with the policy objectives (the criteria to be defined in the legislation). The economic objective (and probably the results) of such incentives would be to subscribe to a part of the ever present risk of privately conducted R & D and thus induce private investors to undertake more projects than they would undertake without such incentives.

The principal advantage of this route would be a maximum participation of private funds in the expansion of the effort and that with a proper strength of the incentives (size of the tax credits) it would probably induce an optimum expansion of the R & D effort (which I would define as that consistent with the full employment of qualified S & T manpower). Also, in following this route the required bureaucratic machinery to administer the program would be minimal (if the eligibility of the projects for the incentives were clearly defined in the law);

there would be few proprietary problems (the proprietary rights to the inventions would automatically go to private investors); and the programs would be strictly national rather than a "special interest" enterprise.

The disadvantages of this route would be some duplication of the same R & D projects in several firms; it might be conducive to a greater rate of R & D project failures than some of the direct approaches because of the inexperience of some newcomers to R & D activity which the program would induce; and its effectiveness would be difficult to ascertain with any degree of precision. In a technical sense the results of these disadvantages might be labeled as "social waste." In such acitivity as R & D, however, some duplication (essentially the same projects in various forms) is probably desirable since it would tend to enhance competition in the economy and the excess could be kept at a minimum by some procedural devices that could be built-in into the scheme (such as certification of the eligibility of projects for incentives in the process of which the excessive duplication might be minimized), and the tendency to greater rates of project failures because of inexperience of "newcomers" might at least in part be offset by the heavier financial participation of private funds and the absence of failures induced by errors of bureaucrats.

This route, however, would have one disadvantage that could not be overcome: by subscribing to a portion of the cost of all R & D in question it would substitute public funds for some portion of private funds that are being invested in R & D by private interests anyway and,

therefore, the kind of increase in the R & D effort that the country needs would probably be very costly to the Government if this route were followed.

(11) Instead of providing tax incentives or equivalent cash payments for all R & D in question, however, we have also the option of providing tax incentives or equivalent cash payment for only the incremental R & D in question (above a certain historical base level, including a zero level for those who have never performed R & D). The advantages and disadvantages of this route would be the same as with tax incentives for all privately performed R & D in question (option #10) except that, and this is of paramount importance, by subscribing to a portion of the cost of incremental R & D rather than to a portion of all of it there would be little, if any, substitution of public funds for private funds and, therefore, the optimum expansion of R & D via this route would be a lot less costly to the public than that achievable by any other route.

(12) Finally, there is the option of trying to stimulate the flow of successful innovations that meet certain criteria consistent with the objectives of the program in question, that is, to stimulate the output of R & D rather than the input. For that purpose one might try to devise a system of tax credits or equivalent cash payments for a portion of the R & D cost leading to commercially successful innovations. Compared with the incentives for the enhancement of inputs (options #10

and 11), the advantage of this approach would be that only the successful projects would be rewarded rather than to subscribe to successes as well as failures. Rationalizing rewards to successes is much easier than rationalizing the rewards of failures and, therefore, this approach, in principle, has considerable attraction. The process of successful innovations is so complex, however, that I doubt that it is possible to design a program in line with this idea, and even if it were possible that it would work. In order to design such a system one would have to define the cost of successful innovation in a meaningful (business-wise) and unambiguous way and this is, at best, next to impossible. For example, I am told that nowadays a discovery of any new functional chemical (such as pesticides or lubricating oil additives) requires the screening of literally thousands of candidate chemicals. Would the R & D cost of the new chemical--

(a) include only the cost of the R & D that directly led to the chemical's discovery, or

(b) would it also include the cost of screening the thousands of candidate that did not work? If the decision is made in favor of (a), the question arises whether this would be realistic, would this cost be ascertainable (for tax credit purposes) and whether or not the incentives thus designed would do any good. On the other hand, if the decision is made in favor of (b), and the probability is that this is how the perfomers would look at the cost of a successful chemical, the question is what would we subscribe to--the cost of R & D or the

cost of successful R & D. It appears to me, therefore, that, notwithstanding the attractiveness of the idea in principle, it is not very practical.

To me, the twelve options listed above more or less exhaust the range of theoretical possibilities of how one could go about trying to enhance R & D. All of them have certain advantages as well as disadvantages. Not one of them is the kind that we could grab without further questions being asked. It seems to be more than apparent, however, that the next to the last option--tax incentives for incremental R & D directed toward stated objectives--is the most promising, most equitable and, indeed, the most sensible given the size and the structural peculiarities of the U.S. economy. There are those who despise the very thought of this idea, but to me, considering the kind of economy and Governmental institutions that we have, this route appears, despite all the limitations, to be simply a pragmatic inverse of our going to the moon.

I trust that I made it adequately clear in the discussion of policy needs, however, that the adoption of a program for the enhancement of R & D, whatever route might be decided upon, is not all that this country requires--it would be only a small fraction thereof. What the country needs is a comprehensive national technological policy.

APPENDIX K

FEDERAL, STATE AND LOCAL GOVERNMENTS RECEIPTS AND EXPENDITURES

APPENDIX K. FEDERAL, STATE AND LOCAL GOVERNMENTS RECEIPTS AND EXPENDITURES: SELECTED YEARS AND PERIODS, 1967-1974

$ Billions

Item	1967	1968	1969	1970	1971	1972	1973	Seasonally Adjusted at Annual Rates 1973 IQ	1973 IIQ	1973 IIIQ	1973 IVQ	1974 IQ	1974 IIQ
Federal Government													
Receipts	151.2	175.0	196.9	192.0	198.5	227.2	258.5	249.1	255.0	261.8	268.3	279.4	291.6
Expenditures	163.6	181.5	189.5	203.9	220.3	244.7	264.2	260.2	262.4	263.4	270.6	281.0	291.6
Surplus or Deficit	-12.4	-6.5	7.3	-11.9	-21.9	-17.5	-5.6	-11.2	-7.4	-1.7	-2.3	-1.5	0.0
State and Local Government													
Receipts	93.5	107.1	119.0	135.0	152.2	177.2	193.5	190.3	192.0	194.6	197.3	200.8	205.8
Expenditures	95.1	107.5	118.9	133.2	148.8	164.9	184.4	177.0	181.7	186.2	192.7	197.4	203.3
Surplus or Deficit	-1.6	-0.3	0.1	1.8	3.4	12.3	9.2	13.2	10.4	8.4	4.6	3.4	2.5
All Government													
Receipts	244.7	282.1	315.9	327.0	350.7	404.4	452.0	439.4	447.0	456.4	465.6	480.2	497.4
Expenditures	258.7	289.0	308.4	337.1	369.1	409.6	448.6	437.2	444.1	449.6	463.3	478.4	494.9
Surplus or Deficit	-14.0	-6.9	7.5	-10.1	-18.4	-5.2	3.4	2.2	2.9	6.8	2.3	1.8	2.5
GNP in Current Prices	793.9	864.2	930.3	977.1	1,054.9	1,158.0	1,294.9	1,248.9	1,277.9	1,308.9	1,344.0	1,358.8	1,387.3
All Government Surplus or Deficit as % of GNP	(-)1.8	(-)0.8	0.8	(-)1.0	(-)1.7	(-)0.4	0.2	0.1	0.2	0.5	0.1	0.1	0.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis

APPENDIX L

MONETARY AND CREDIT POLICY

APPENDIX L

Data Bearing on
U.S. Monetary and Credit Policy:
Selected Periods, 1960-1974

Item	1960-65	1965-68	1969	1970	1971	1972	1973	December 1973 - June 1974
1. Growth in real GNP, % per year	4.4	3.5	2.7	-0.4	3.2	6.3	5.9	-2.1[b]
2. Growth in GNP deflator, % per year	1.6	3.3	4.8	5.5	4.7	3.2	5.6	5.1[b]
3. Growth in GNP in current dollars, % per year	6.0	8.1	7.6	5.0	8.0	9.7	11.8	2.9[b]
4. Growth in stock of money[a], % per year	3.0	5.5	3.5	6.0	6.3	8.7	6.1	3.5
5. FRB discount rate, average % per year	3.26	4.48	5.87	5.95	4.88	4.50	6.44	7.50[c]
6. Prime commercial paper (4-6 months), average % per year	3.52	5.23	7.83	7.72	5.11	4.69	8.15	9.34[d]
7. FHA new home mortgage yield, average % per year	5.70	6.36	8.19	9.05	7.78	7.53	8.08	8.92[e]

NOTE: Percentages in items 1 and 2 nonaddative because of independent calculations.

a) Currency plus demand deposits (M_1)
b) Change from 4th quarter 1973 to second quarter of 1974
c) I May-June 1974, 8%
d) On June 29, 1974, 11.48%
e) In May 1974, 9.46%

Source: Bureau of Economic Analysis and Federal Reserve Board

TESTIMONY OF A. WARNE BOYCE
PRESIDENT OF MICROBAC LABORATORIES INC.,
AND, PRESIDENT OF THE SMALLER MANUFACTURERS COUNCIL

TO THE REGIONAL
PRE-SUMMIT CONGRESSIOANL CONFERENCE
ON INFLATION

CHAIRED BY FREDRICK R. DENT
UNITED STATES SECRETARY O F COMMERCE

As President of Microbac Laboratories, a small corporation I feel particularly honored to be invited to make a presentation at this conference.

I also speak for some 600 member companies of the Smaller Manufacturers Council employing over 60,000 people and with sales volume of over One Billion dollars.

Further consider that small businesses account for 60% of the nation's employment and greater then 40% of its GNP, and this is our constituency.

In defining this current inflation one important input is that supply is not keeping pace with demand. This matter of supply and material shortages is particularly hard on small business which is at the low end of the totem pole. There is evidence on the Congressioanl Record to show that the small businessman has actually been hurt more than the consumer in this period.

With regard to the Fiscal Policy, on the expenditure side, while we in small business applaud the concept of holding federal expenditure at a level of $300 Billion, we recommend great caution in applying cuts because what may from the point of view of total expenditure seem to be small cuts, may have a disproportionally severe effect on certain limited sectors.

I can lose credibility very quickly at this juncture by making partizan reference to the Small Business Administration, but the case is so self-evident as to deny exclusion. Under a revitalized SBA, productivity is an essential factor in the granting of loans. A cut in such funds would cause a serious setback in a sector of business that is still capable of showing a marked improvement in productivity, both in Human Productivity and Capital Intensive Productivity.

On the tax side we have the serious problem of cash flow, so critical to small business. Phantom profits, inflated by highly valued inventories result in high taxation which in turn depletes the cash flow. The danger of this trend, along with the failure to depreciate capital equipment with a mind to replacement cost, is a gradually obsolescing

company. We urge consideration of tax relief in the form of an increase of the surcharge allowance level from the $25000 of twenty years ago to $100,000, to allow smaller businesses to reinvest in themselves and where appropriate to move towards capital intensive, higher productivity operation.

Reference should also be made to the potential benifit of the investment tax credit.

Insofar as Monetary Policy is concerned the tight money period was correctly as severe on smaller businesses as on larger corporations; this in spite of the two tier interest rate, which essentially places smaller business on an equal footing with its larger partners, given its limited access to alternative monetary resources and its far greater vulnerability. We conclude therefore that the two tiered system has been benificial and should be continued.

Government Polocies such as Wage-Price Guidelines and other controls worked most severely, if ironically, against the exempt small company which nevertheless had a union. Exemptions from controls meant particularly aggressive union bargaining, meanwhile it was extremely difficult for such small enterprises to increase prices during the economic stabilization period, because of the justifiable reluctance of larger companies to accept price increases. Smaller companies with unions should not at any future time be excluded from controls.

The influence of Local and State Legislation is particularly important at the moment because so often state controlled loans are tied to levels of increased employment, and consequently to labor intensive operations. It is particularly severe in Western Pennsylvania where the trend is towards high technology "spin-offs" and away from labor-intensive operations. This need not cause the unions anxiety because in the long run it will mean increased employment. But it is very important that smaller business should not be forced always to start from a position of weakness and low productivity. We strongly recommend that equal loan treatment should be granted to those business ventures showing a capability of high productivity.

Insofar as Environmental Legislation is concerned the most serious hardship could be removed without increased Federal Cost quite simply by allowing at least ninety days for review of a regulatory requirement with an appropriate technical consultant. What really hits the Smaller Manufacturer most is when a regulatory officer calls and demands immediate compliance. The impact is so severe in terms of fines, excessive consulting fees because of time demands, and finally equipment and construction costs, that the company may well be put out of business. The same thinking applies to OSHA.

I hope in conclusion that the importance I attach to high productivity is clearly noted. This may necessitate an intensive education program under the guidance of the SBA and perhaps through organizations like S.B.C., Dept of Department of Commerce. Smaller Business may well be more accessible to higher productivity than more developed industry. It is worth the endeavor to try.

Thank you.

TESTIMONY TO MINI-SUMMIT INFLATION CONFERENCE

CHAIRED BY

UNITED STATES COMMERCE SECRETARY, FREDRICK B. DENT

SEPTEMBER 16, 1974

PITTSBURGH, PA.

PRESENTED AND PREPARED BY

WILLIAM H. BRAUNLICH, JR. PRESIDENT

AND

THOMAS J. MANOS

CONTROLLER

BRAUNLICH-ROESSLE ELECTRICAL REPAIRS, INC.

AND

BRAUNLICH-ROESSLE COMPANY

Introduction:

Braunlich-Roessle is a small electric repair, new equipment and parts distributing company serving industry in the western Pennsylvania tri-state area. We employ approximately sixty (60) people, were established in 1915, and have gross sales just over 3 million dollars. Our company belongs to the Smaller Manufacturers Council headquartered in Pittsburgh. The Smaller Manufacturers Council has over 500 members doing a yearly sales volume of over one billion and employing approximately 60 000 people.

First, we would like to express our appreciation to Senator Wilbur Mills for his tax reform bills of 1960 and 1969 and his small business advocacy bill of 1974.

To emphasize the importance that small manufacturing firms voices be heard concerning "hyperinflation" we state the

following:

A. 50% of all persons employed in U.S.A. are employed by the 8 million small businesses in our country.

B. If each of these small businesses hired one more employee unemployment would be done away with.

C. In the 1970 recession in the city of Seattle unemployment rose to 12%. Seattle has a highly large aircraft business oriented economy. During this same period the Atlanta economy which is diversified and made up of many small and medium sized companies had a 3.9% unemployment.

D. The Commerce Department in their business statistics report states the wholesale price index figures as follows:

1. 13 typical industrial raw materials up an average of 26.2% in July 1974 over July 1973.
2. 9 typical food stuffs up 27.8% July 1974 over July 1973.

Small businessmen are hurt at home and in their business.

Before a discussion can originate concerning the negative aspects and effects of "hyperinflation", one must distinguish between inflation and "hyperinflation"- also referred to presently as double-digit inflation.

During the period beginning 1965 and ending in 1972 we were in a period of inflation - that is prices rose annually

no less than 3% but no more than 6%. The rate of inflation over that period of years was considered acceptable because it didn't really cause any serious side effects in the future planning of small businesses.

Beginning in 1973 the inflation rate started to climb rapidly. By the middle of 1973, no longer could its rate of rise be kept within the limits of 6%. In fact, the rate of rise now doubled its previous 6% limit, then known as a highly inflationary rate. We now had entered an era of double digit inflation or economically speaking an era of "hyperinflation". This new era has existed almost 15 months.

"Hyperinflation" is the most dangerous type of period any small business can cope with if it extends over a period of more than a few years. During a period of "hyperinflation" prices are rising very rapidly and it becomes apparent even to the least speculative that it is folly to hold money for any length of time. People therefore seek to get rid of their money as soon as it is received. If such a period of "hyperinflation" is not contained in a few years, then the owners of bonds, mortgages, government debts, pension, and annuities lose the value of their property. Because these investments consist only of a right to receive certain fixed sums of money, these sums now become nearly worthless.

I have surmarized some of the main negative effects on the future of small businesses if "hyperinflation" extends over a period of a few years.

1. First, and foremost, each small business no matter its type will enter a vacuum period such as the vacuum economy we experienced during the Great Depression.
2. Cash needs will become greater and greater each year. There are two main reasons for this. First, constantly rising inventory prices will create the need for additional cash but also create the need for additional tax payments as a result of phantom profits arising from rising inventory prices. Second, depreciating physical assets at cost, possibly at a fraction of its future replacement cost results in a gross overstatement of taxes over a period of years and no valid additions to surplus to replace fixed assets when needed.
3. Audit fees will rise tremendously because banks will require the highest degree of certified audits attainable when committing additional loans to small businesses.
4. Insurance expenses of all types will rise appreciably because of "hyperinflation".
5. Pension fund contributions will rise substantially so as to give employees added retirement income to compensate for the shrinking value of their dollar.

6. Ultimately banks will be compelled to call in loans of many small businesses and instead grant large corporations additional loans because the future success of a few large corporations they are dealing with is more meaningful to their solvency than possibly a hundred small businesses.

7. Fast growing small manufacturers and other small business is very severely effected by the current high rate of inflation. With growing sales volume cash needs expand faster than revenues after taxes can provide. We believe that the surtax exemption should be raised to $100,000.00 from $25,000.00 to enable these companies to generate their own cash to reinvest into their own business.

8. During the government's groping for solutions to this "hyperinflation" large employment cut backs by government and big business will cause unacceptable unemployment levels. The only area left to hire the displaced workers will be in expanding markets of small innovative manufacturers. It is imperative that these small businesses not be allowed to fail due to lack of cash caused by inflation and over taxation.

9. The efficiency of most small companies causes less inflation than many businesses however it is these very companies which are most severely hurt by the inflation. Why not foster and nourture these small businesses so that their productivity can help cure the shortages of goods which build inflation?

Sept. 18, 1974

A. Warne Boyce, President

Microbac Laboratories Inc., and the Smaller Manufacturers Council

Information on a Productivity Development Program
to be included as material for a presentation by
Senator Nunn

The Smaller Manufacturers Council, a group of some 600 companies, employing over 60,000 people is deeply concerned with the dangers of inflation to all small businesses.

We believe however that by a carefully prepared productivity program involving advertising, education and incentives, at a relatively low cost, a very large number of small companies can benefit materially. Considering that small business account for 60% of employment in the USA and for more than 40% of the GNP, a significant impact could be made on hyperinflation within a reasonable period of time.

We are also of the opinion that such a program would have considerable psychological impact across a very wide spectrum of the country.

This is a practical possibility because smaller business which tends to "ride in on the seat of its pants" is the most viable sector for a substantial productivity increase.

This is not to say that major business could not benefit from further productivity endeavors, indeed it is from just such a program by the United States Steel Corporation that the substance of my idea for smaller manufacturers and small business stems.

THE CONCEPT OF AN INCREASED PRODUCTIVITY EDUCATION PROGRAM TO SMALL BUSINESS:

1. We would look to the Small Business Administration and The Department of Commerce aid in the dissemination of information and the one significant area of expense, an advertising and public relations program.

2. Smaller Business Associations, such as the Smaller Manufacturers Council (SMC) The Small Business Association of New England (SBANE), the Independent Business Association of New England (IBA), and the Greater Cleveland Growth Association Group, are all capable, for example of holding seminars and stimulating action towards this end of basic education. In short, organized Small Business is capable of, and anxious to play a part in this program. Being Small Business, our voice may have credibility.

3. We understand that major corporations such as Westinghouse Electric Corporation and Rockwell International are keen to assist in an overall productivity drive. Rockwell has for example provided experts to show Small Business the reality of the Energy crisis.

United States Steel Corporation whose idea we have gleaned might be ready to give guidance and expertise to implement the concept.

4. This program should not simply emphasize capital intensity, but should address itself to human factors which in many small businesses have a more significant part to play.

However, it should certainly address itself to the type of basic Cost Benefit Analysis that takes place before prudent capital expenditure is undertaken. It is our belief that most small business that go insolvent do so be-

cause of lack of financial and tax guidance rather than lack of drive or sales.

The IRS can help in the latter instance and it has already done so in its Tax Guide to Small Business, which the SMC has assisted in compiling.

5. Finally, we want to include all sectors, Women in Pittsburgh run highly successful smaller manufacturing business. There are women who are expert consultants in Business Organization. If this is true in Pittsburgh it must be true across the country.

Blacks should be included in the program as should other minority groups.

CONCLUSION

Having said that, let me say that the program is intended to be Cost Effective and not window dressing.

We want it to work both for the benefit of Small Business and the Community at large.

We are also prepared to commit our own time to making it work.

Broyhill Industries
BROYHILL PARK, LENOIR, NORTH CAROLINA 28645 • (704) 758-3000

September 17, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
Washington, D. C.

Dear Secretary Dent:

Enclosed is a copy of my remarks at the conference in Pittsburgh.

We certainly enjoyed meeting with you and appreciate your consideration of the views of business on these most important problems.

I look forward to being with you again on the 27th.

Best regards,

Paul H. Broyhill
President

PHB:ma
Enclosure

General Remarks to the Summit meeting of business and manufacturing
September 16, 1974

I. The business sector has been given much of the blame for inflation, and in the business sector, I include both management and labor. Actually, business has done a remarkable job of increasing productivity and holding down inflation.

The public is now beginning to realize that every increasing cost of government is the real culprit which has created so much inflation. Government has an insatiable appetite for more programs, more authority, and greater expenditures. With total government, including federal, state, and local, spending approximately 40% of GNP, it is certainly time to begin to discipline itself.

For the first time since World War II, it seems that it is now politically expedient for Congress to at least slightly reduce existing expenditures and to take a much more hard nosed attitude regarding new spending proposals.

We, therefore, recommend that Congress and the Administration set up budgeting and funding mechanisms that will assure that expenditures do not exceed an agreed upon amount.

II. Some economists are proposing that we must put the economy through the wringer to reduce inflation. In our opinion, this is the wrong approach. We believe that business should be encouraged to continue expansion and growth. If the economy declines, so will government receipts, and this could create substantial deficits.

I recall visiting Brazil a number of years ago where business had come to a virtual halt, yet inflation continued rampant. My point is that curtailing business does not necessarily cure inflation.

Now is the time to encourage business by various means at our disposal. Japan and Germany are our greatest international competitors. They have been very business oriented, and this is one of the contributing factors to their great success.

Let's not cure the disease and kill the patient. Let's keep business alive and healthy.

III. Specific critical areas.

1. The stock market

The economy runs on faith and confidence. The stock market is a barometer of this confidence. For the short range, turning around the stock market should be top priority.

For the long range, we need to make the equity market a desirable place for investment. Industry is not generating sufficient funds to keep up with the investment needs. We are paying income taxes on false profits created by inventory evaluation. If profits were deflated for inventory evaluation and for reduced purchasing power, we would see that the growth of profits

We would recommend a substantial reduction in the capital gains tax, elimination of the so-called preference income tax, and a substantial tax break on both dividend and interest income.

2. Housing

The housing industry has traditionally been severely curtailed in times of tight money. The housing industry has a lot of affect on the entire economy and some long range plan needs to be devised to prevent these severe ups and downs.

A specific suggestion would be low cost government loans to savings and loans institutions similar to the REA program of the 1930's. Money could be funneled into the savings and loans during one part of the cycle and could be taken out during the other part of the cycle.

3. Depreciation allowances

The depreciation allowances allowed business are completely unrealistic when related to replacement price. The United States has consistently had a tighter depreciation policy than other countries with whom we are competing. We particularly emphasize the need for more liberal depreciation allowances on environmental control equipment. Industry has spent billions of dollars on environmental control which is not productive and does not create new jobs. More consideration should have been given to those industries who are making substantial expenditures in this area.

Our own company has spent enough money on environmental control devices to create at least 7% more jobs.

I think there should be some retroactive provision to any plan for relief along these lines. It would certainly be unfair at this point to give a break from here on out, but not consider the monies already spent by those companies who have cooperated and tried to move ahead in full compliance.

4. Federal Regulations

We are dealing today with a myriad of federal agencies. Oftentimes the agency seems to look on business as the enemy rather than the creator of the goods and services on which the country depends for its livelihood.

There must be some control put on some of the "little dictators" that we have developed in governmental agencies.

A specific suggestion would be a standardized rating program whereby a company could rate an employee of an agency on such things as knowledge, character, cooperation, attitude, tec. This rating should go to the employer's superior and at least another level up.

5. Monetary

In our opinion, the monetary should be slightly eased. In general, we admire the stance of the Fed, but believe that at times they lean a little too hard. However, they have had a lonely job and very little cooperation from the fiscal side. With some fiscal restraint, the monetary policy could be slightly eased and for the long pull be made more consistent.

IV. Conclusion

In spite of the problems confronting the United States economy, we believe that the United States business has a great underlying strength and that given reasonable cooperation from government the economy will respond positively.

STANLEY L. BURNS
LAWYER
PROCTOR, VT. 05765

September 15,1974

The Honorable Frederick Dent,
Secretary of Commerce,
Washington, D.C. 20000

Sir: Deflation is Easy and Equitable

Enclosed is a picture of Inflation. it is based on 10%tax on $10,000 gross income and 12% gross expense for Social Security, a total tax of 22%. Added to this tax burden on The Economy is the Income Tax expense of the proprietor, not included here.

Unless the reasoning in the picture can be refuted the further taxing of productive effort is foreclosed.

The enclosed copy of letters to Summit Meeting Secretary Butz and Secretary Lynn, the copies of editorials, and the ad on taxes explain in part the effect of a net worth tax. From the figures available and offsetting present income tax expense it is clear that the tax payers will gain in net worth.

Social Security will be reduced in tax support needs by recycling, in a sense. The payout would be a lien on the estate of the payee, for the recipient would contribute nothing to Social Security expense.

Has anyone else proposed a way to deflation, a practical way for housing and construction, an answer to the agriculture problem, increased puchasing media, lower interest, enriching the tax payers and economic stability? I would like to be heard further on this matter.

I am at your service at all times.

Very truly yours

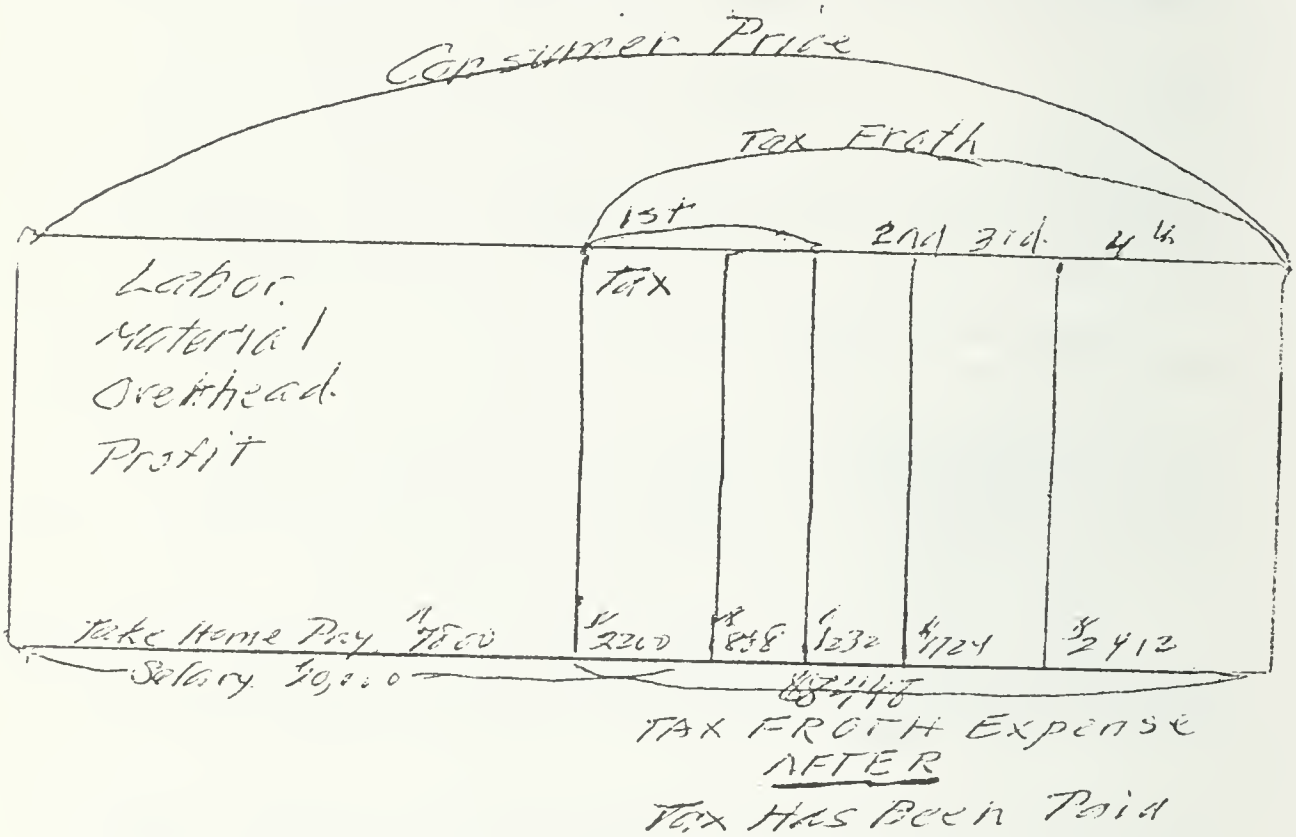
Stanley L. Burns

P.S. The Arabs say they will take notice of Deflation.

STANLEY L. BURNS
LAWYER
PROCTOR, VT. 05765

INFLATION

(Based on 40% Markups)



Is this reasoning irrefutable? It seems so. An Economist: "To the extent taxes are pyramided they are inflationary"

NET WORTH TAX

Excerpt for letter from Board of Governors of Federal Reserve Letter (re: nation debt at that time):

"The Net worth tax you propose for debt retirement is an interesting idea. It would involve somewhat less of depressive effect and less redistributuiion than a debt retirement program using income or consumption taxes"

STANLEY L. BURNS
LAWYER
PROCTOR, VT. 05765

September 15, 1974

Deflation

This means getting back to a consumer price that consists of labor, material, overhead and profit, and wiping out all the Tax Froth that is included in the price to day.

It is accomplished by first repealing the Income Tax and by usinf a Net Worth Tax to cover budget and Social Security expense. When this is done all prices would be refigured from raw material to consumer with this tax burden wiped out of the price passed along the commercial stream.

All property would be valued in ounces of gold and the new currency after deflation would be worth the same numer of ounces of gold as before deflation.

Paper gold would become a reality in time.

STANLEY L. BURNS
LAWYER
PROCTOR VT 05765

September 6, 1974

The Honorable James Lynn,
Secretary of HUD,
Washington, D.C. 20000

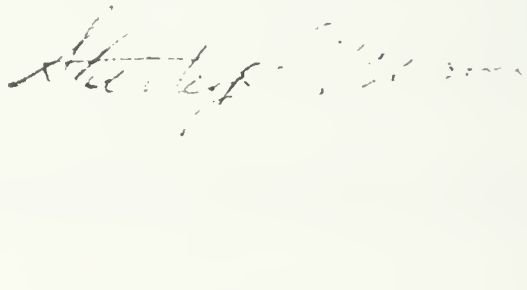
Sir: Housing and Construction Funds are easy

Reduce over 100 billion of the national dect by a 2% tax on individual net worth in excess of $500,000. This will add to over 100 billion of hoarded or inactive purchasing media. This is more than twice the amount during the prosperous '50s. It will assure ample funds and lower interest.

Tax payers should receive a credit in like [illegible], good for several years, against their capital gains taxes.

See chart enclosed.

Very truly yours,



STANLEY L. BURNS
LAWYER
NEW YORK N.Y. 10036

September 7, 1974

The Honorable Earl Butz
Secretary of Agriculture,
Washington, D.C. 20250

Sir: Correcting Agriculture and Food Problems is Easy.

Repeal the Federal Income Tax and wipe out all Tax Froth in wages and prices. Agriculture will have a slight cut compared to cuts across the economy, but his purchases other than agricultural products will have a great cut in prices, so he benefits both ends.

The enclosures will explain the matter. I am at your service at all times.

Fair Price	Cons. Per Price Tax Froth
Labor	4 Proprietors
Material	3 Proprietors
Overhead	2 Proprietors
Profit	One "

Very truly yours,

Stanley L. Burns

En: Ad
Inflation

Benefit Hikes Pose Problem

Social Security Boosts May Threaten Economy

Thirty million elderly and disabled Americans are now receiving social security benefits ranging from a minimum of more than $90 a month for an individual to a maximum of more than $440 a month for a couple. By next July, recipients will be receiving even bigger allotments. In the years to come, millions more Americans will be receiving social security benefits that will make present payments seem puny by comparison, putting a strain on the taxpayers and businesses footing the bill.

To Match Rise

Under the Social Security Act of 1972, monthly payments to beneficiaries after this year will match the rise in the consumer price index, with congress remaining free to grant additional increases.

According to the Social Security Administration, this means that the maximum retirement benefit will rise to $7,236 by 1980 and will top $30,000 by the year 2010. The maximum contribution for each worker, meanwhile, will go to $3,288.

But the rise in benefits and the corresponding increase in taxes won't stop there—unless new ways are found to care for the financial needs of the elderly and disabled.

See Problem

Many fear that social security will mean economic disaster in the long run because more and more retirees will be receiving bigger benefits than they contributed. As payroll taxes rise to fund the increases, workers will press for offsetting wage gains. Businesses, hit with higher labor costs and social security taxes, will raise prices to compensate. The consumer price index will then rise, triggering more social security hikes.

Many experts warn that this inflationary cycle cannot go on

Turn to Page 5, Column 1

THE

REVIEW & OUTLOOK

A Long Look at the SSS

We read with interest last week's cover story in U.S. News and World Report on the Social Security System, which concludes that the system is in desperately poor financial condition. "The failure to reform Social Security, almost everyone agrees, could lead in the long run to disaster."

It is worse than that. USN&WR says that by 1980, even though a worker pays a maximum Social Security tax of $2,070.45, which has to be matched by his employer, the system will be paying out $20 billion more in benefits than it takes in that year. Unhappily, the assumptions cranked into these numbers are those of the Social Security Administration, numbers that are obsolete and ridiculously optimistic. Unless taxes are increased substantially, or benefits reduced substantially, deficits on the order of $20 billion could arrive by 1980, growing by leaps and bounds from there.

The most disheartening number, an official one, is provided by the Treasury Department. As of June 30, 1973, the unfunded liability of the system was $2.1 trillion. Another way of putting it is this: In a very real economic sense, the national debt is at least $2.1 trillion larger than the politicians say it is. If, as of June 30, 1973, the system had refused to accept new workers, saying it would only collect taxes and pay benefits to those already covered, its outlays over the next 75 years would exceed receipts by $2.1 trillion, plus market rates of interest compounded annually. In the last year, this number has grown by about $300 billion.

So far, Congress has blinked away this enormous pool of debt by passing a law that defines "actuarial soundness." Its reasoning is that the SSS would never close off to new work-force entrants, hence there would always be new workers to pay the benefits to the new recipients. By the congressional "dynamic assumptions" definition of actuarial soundness, the system is only in deficit by [illegible] billion spread over the [illegible] years.

As [illegible] for the [illegible] in reality as they were on the planning boards. They have not been. Working on the 1960 Census figures, the Social Security bureaucrats projected a 1964-1975 birth rate gradually declining from 21 per 1,000 to 20 per 1,000, then climbing again. Instead, the birth rate dropped like a stone throughout the period and now stands at around 15 per 1,000. The bureaucrats projected a growth in real wages over the period of 2.1% a year; between 1945 and 1973 real wage growth averaged 1.7%.

The errors imply much higher taxes are required to sustain benefit levels, and of course imply economic insanity if Congress continues to hike benefit levels. How much higher taxes? In their "Actuarial Audit of the Social Security System," Robert Kaplan of Carnegie-Mellon University and Roman Weil of the University of Chicago assert that realistic assumptions "imply taxes 50% to 75% higher than current levels." The SSS actuaries will not be able to avoid admitting some of this when they put out their new assumptions based on the 1970 Census. The Kaplan-Weil argument is that the dynamics have worsened since 1970 and should be faced up to now.

What's to be done. The first thing is that the public has to be told, by the politicians, that it is not possible to maintain the current rate schedule and benefit level. One or both have to be adjusted. It is of vital importance that the public be told in that most of the work force is now counting on the purchasing power the current benefit levels yield for their retirement years.

Congress may cringe at the idea of trimming these benefit levels, but sharp tax boosts won't be popular either. Liberals will want to dip into the general fund to keep the system going a little longer, but within two or three years this method will be cleaning out the Treasury. All other "worthwhile" government programs will have to be chopped out to sustain Social Security. That, too, [illegible]

Opinion

The Truth About Social Security

The recent ominous report by the trustees of the Social Security System on its financial status (see story, p. 1) will hopefully force the Congress and the American people to take a more critical look at this vital and massive program.

In recent years our Association has posed some serious and challenging questions about Social Security in an attempt to promote greater understanding of both the flaws in the present system and the need for changes to meet future demands.

Our questions have not always been welcome. Defenders of the status-quo have been quick to claim that any major changes would endanger the system's "integrity." Special interest groups have also sought to delay or prevent change. Some segments of organized labor, for example, strongly support the earnings limitation test as means of forcing and keeping older workers out of the labor force. (We believe the test should be eliminated.)

And the American public, which for years has been led to believe that Social Security is a fiscally sound "contributory" system of "insurance" for old age, has not subjected the program to the thorough examination which it deserves.

Hopefully, this will now change. A series of probing newspaper and magazine articles and television documentaries about Social Security in recent months have begun to focus greater public attention on the program. And surely when the Commissioner of Social Security admits that the financing of the system must be changed significantly [illegible] ning years in order to avoid bankrupt[illegible] [illegible]me has come for serious reappraisal and corrective action.

We have spoken out often in recent months about the "semantic dishonesty" which has been used to sell the Social Security program to the public. We have done so because we believe that only if the American people know the truth about Social Security can the proper steps be taken to correct its flaws and plan its future direction.

It is high time that a number of myths about Social Security are put to rest once and for all. Regardless of what we have been led to believe.

- Social Security is *not* an annuity program. Retirement benefits are not necessarily related to contributions made. A family in which the husband and wife worked, for example, usually receives the same benefits as a family in which the wife did not work, despite the fact that the working wife also paid Social Security taxes.
- Social Security taxes are *not* paid into a trust fund earmarked for an individual's future retirement benefits. Today's Social Security taxes are used to provide benefits for today's retirees. The present Social Security "trust fund" now has enough surplus to cover perhaps one more year of benefit payments if no further taxes were collected. The fund now contains approximately $68 billion, while the actual benefits owed participants in Social Security are valued at more than $500 billion.
- Social Security payments are *not* "contributions;" they are compulsory "taxes."

• Employers do *not* share the burden of Social Security taxes equally with employees. Their share is treated just like any other business cost; it can be passed on to the consumer in the form of higher prices or to the worker as a long-range reduction in his potential salary. Their share is also deductible for income tax purposes as a business expense. The employee, on the other hand, cannot pass on or take a tax deduction on his share of the Social Security tax.

• Although Social Security is based upon moral commitment between generations, there is *no legal guarantee* that benefits will be paid to future generations, particularly if the "trust fund" does not remain solvent.

In the light of the trustees' report, our major concern right now is that the financing mechanism of Social Security be changed where necessary to insure its future solvency.

We have pointed out in this space before that the burden of Social Security taxes upon the American wage earner and his family is becoming intolerable. More than half of all families now pay more in Social Security taxes than in Federal personal income taxes. And it should be kept in mind also that the Social Security tax is perhaps the most regressive tax levied by our government. There are no exemptions or deductions, and the low and moderate-income family (particularly one in which the wife and husband both work) pays a far greater percentage of its total income than does a higher-income family.

If the trend toward "zero population growth" continues, and if inflation [illegible] unchecked (thus automatically triggering increases in Social Security benefits), it becomes obvious that a proportionately smaller work force will be called upon to finance greater and greater benefits for an increasing number of retirees.

No pious platitudes about the system's "fiscal integrity" or sermons about how well it has worked in the past (and it has worked well for many years) can change the fact that the demands on the system in 1975, 1985, 1995 and beyond are going to be far greater and far different than they were when Social Security began nearly 40 years ago.

One of our Association's major legislative objectives for 1974 calls for the use of general Federal tax revenues, rather than increases in the Social Security wage base or tax rate, to finance both the increased cost of Medicare and automatic Social Security cost-of-living increases. We also believe that general revenues can be used to cover the cost of eliminating the earnings test and to make other improvements in the present system. And our legislative staff is continuing to work with members of Congress, departmental officials and others in an effort to find other ways to make needed changes in Social Security.

But we must act now. Today's working Americans provide for the nation's present retirees through their Social Security taxes. Older Americans have, we believe, an equal obligation to insure that today's workers find some measure of security in their later years. That is why the future of Social Security, as well as the present, is very much our business.

PRESENTATION BY

BERKELEY G. BURRELL

PRESIDENT

NATIONAL BUSINESS LEAGUE

BUSINESS AND MANUFACTURING CONFERENCE

ON INFLATION

DETROIT HILTON HOTEL

SEPTEMBER 19, 1974

While this text forms the basis for Dr. Burrell's remarks, it should be used with the understanding that paragraphs of it may have been omitted in the oral presentation and, by the same token, other remarks may have been made orally which do not appear in this text.

Mr. Secretary, Members of Congress, fellow delegates. Mindful of the overall national economy, but especially concerned about the plight of the small and minority business community and of the consumer, it is imperative to the national and international economy that excessive inflation be controlled, regardless of the political consequences.

While business as a whole is affected, the weight of deteriorating economy conditions falls with particular oppressiveness on the small and minority business communities which are suffering acutely from such conditions as: sky-rocketing interest rates, inaccessability of equity capital, lowered production and sales, diminished profits, and increased rates of business failures stemming from these and related causes.

The fact that increased productivity is the ultimate solution to inflation can not be denied. The question then is: by what means and at what cost do we increase productivity and thereby curb inflation. As a representative of the small business community generally and of minority business enterprise more specifically, I suggest that national policies must now place particular emphasis on the most depressed segments of our economy. More precisely, we must stimulate or revitalize those sectors of the economy that can contribute measurably to national productivity growth.

In this vein, I can tell you without fear of contradiction,that over the long haul, one of the major keys to increased productivity is Black economic development. To be sure, our Gross National Product is deprived of billions of dollars annually as an acknowledged consequence of the under-development of Black and other minority communities. Since full utilization of our economic resources is one of the essential ingredients for a sustainable rate of growth, the under-utilization of resources in the minority community - particularly the minority business sector - is at variance with the needs of the nation. The upsurge in economic activity over the past several years was unsustainable in part because we were confronted with serious, long-standing under-utilization of significant labor and other resources in minority communities.

With that general backdrop, let me briefly comment on some of the specific issues before us:

1) Monetary policies designed to restrain general demand have increased interst rates and stimulated inflation. Adequate financing represents a major problem for small and minority enterprise. The record is replete with traditional shortages of capital and credit resources facing the existing independent businessman.

Compounding this universally recognized money gap have been recurrent tight money periods which have placed even a greater restriction upon small businessmen. The Fed's current monetary restr ctions have placed crushing pressures on small firms, particularly those owned and operated by minorities. It is a generally acknowledged truism that small business must expand or perish - and it is equally axiomatic that small business can not grow when bank and credit lines are either frozen or being retracted.

The end result of tight money is usually bankruptcy for those firms which are trying to grow without adequate credit lines. Absent substantial change in monetary policies we urge the Administration to conduct an immediate and careful examination of the Credit Control Act of 1965 to determine whether the Fed, through the enormous powers vested in it by that Act, can relieve this credit burden in selective areas.

2) Fiscal austerity is clearly necessary as a basic policy. Yet given the level of (uncontrollable) expenditures and prior year budgetary obligations, it is doubtful that

actual federal expenditures can be held below $300 billion in FY'75, even if the level of new obligational authority is below that figure.

Seeking a balanced budget is important; but equally important are the priorities established for federal spending. The real issue in budgetary restraint is what areas will be restrained and how. Significant reductions in defense spending, foreign aid (especially military assistance) and non-productive subsidy programs should head the list. Within existing budget limitations, priority perferences must clearly be in the area of human resources. Spiraling inflation, along with rising unemployment, points to the need for public works and private sector job training programs. Our spending today must be keyed to increasing productivity.

3) Substantive reform of our current tax structure is long over-due, particularly as relates to small business. Legislation in the area of small business tax reform is currently pending in Congress and should be given positive action. Further, we must develop ways of providing tax incentives for substantial investments by the corporate sector in minority business development, and in the futher development of our human resorces.

Generally, we must have a balanced tax reform policy which would raise the purchasing power of lower income groups and impose tougher minimum income tax on higher

income groups. Real disposable income declined by 5% over the last year, while the cost of living continued inexorably upward. Increases in income tax exemptions can provide non-inflationary dollars to consumers to offset higher prices. Revisions in current corporate income tax policy should be tied directly to productivity. Corporations which increase profits by increasing output should be rewarded while those which accure higher profits through administered price increases without expanding output should be penalized.

4) In the international arena, economic co-operation with other countries is increasingly vital. We need in-depth impact analyses of the possible effects that trade deals will have on affected sectors of our economy and ultimately on the end-user or consumer. What is needed is a realistic assessment of the prestige value of trade agreements versus their domestic economic propriety.

There is increasing evidence that America must seek new markets for our products and new sources of needed raw materials in the future. We will find ourselves turning more and more to the less developed areas of Latin America, Africa and Asia. Therefore, it is in our own national interest to contribute to the further development of these areas.

Finally, if we are to turn our economic picture around, we must not only fight inflation, but inflationary - expectations as well. The consuming public - already outraged at

the seemingly uncontrollable rise in prices - is the single most important element in any anti-inflationary program. If prices continue to rise we face the unpalatable spectre of a full scale consumer revolt. The public must have confidence in the integrity of our Government leaders and in their ability to devise programs that are equitable for all segments of the nation. Without that confidence, the fear of inflation will stifle even the most imaginative anti-inflationary policy. If the leadership of business, Government and labor does not take the initiative to stabilize prices and curb inflation, the people most assuredly will.

General Recommendations

Imposition of wage and price controls as an immediate means of stabilizing prices

Balanced tax reform package that would (1) place limitations on corporate profits and (2) increase individual income tax exemptions which provide non-inflationary dollars to consumers to off-set higher prices

Job training programs for unskilled workers (especially among disadvantaged) to bring them into the labor market

Provide employment by making Government employer of last resort

Re-arrangement of budget priorities so that programs of human resources development are not squeezed

Thorough education of the populace on the need for a national effort to slow down inflation

Development of national policies that place particular emphasis on the most depressed segments of our economy.

associated builders and contractors, inc.

P.O. BOX 8733 · BALTIMORE-WASHINGTON INTERNATIONAL AIRPORT, MD. 21240 · PHONE Area Code 301-795-5750

August 28, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
Commerce Building
14 Street between Constitution Avenue
and "E" Street, N.W.
Washington, D. C. 20230

Dear Mr. Dent:

A recent public opinion survey listed inflation as the number one concern of 87 percent of the American public. This is a concern which has caused President Ford to establish inflation as his domestic priority.

Specific initiatives to halt the unchecked wage-price spiral will not be an easy task. However, we share in the belief of Walter Heller that it is time "....to put an end to the laws, regulations and practices that make government an accomplice in many cost and price-propping actions." One such action is the perpetuation of the antiquated Davis-Bacon Act.

Hendrik Houthakker addressed the problem directly when he said, "In the field of labor, unreasonable restrictions on union membership, such as prior apprenticeship or excessive entrance fees, would be abolished. The Davis-Bacon Act and similar laws concerning wages paid under government contracts would be phased out..."

According to Congressman Bacon, the purpose of the Act "...is simply to give local labor and local contractors a fair opportunity to participate in the Federal building program." Yet, the wage determinations made by the Department of Labor under the Davis Bacon Act and related laws have displayed an inappropriate and persistent upward bias. Between 1962 and 1970 the General Accounting Office has issued six reports that have pointed this out.

It is not uncommon for union contractors to obtain government construction contracts in nonunion localities, thereby excluding local contractors and often local workers from these jobs. It appears that this behavior is precisely the opposite of the intention of the initial act which was to prevent the federal government from either raising or lowering wages in the area of federal construction. Currently, the

The Honorable Frederick B. Dent August 28, 1974

Davis-Bacon Act and related laws are making the government demand for construction projects relatively inelastic to wages. Additionally, the government's bargaining power is decreased due to its inability to search out the lowest bidder.

Forty-five billion dollars worth of public construction is affected by Davis-Bacon minimum wage rates. These rates, no matter how high, become the minimum wage rates of a locality with no chance to fluctuate with local conditions, thereby keeping rates unnecessarily high and inflationary.

Alan Greenspan, nominee for Chairman of the Council of Economic Advisers, stated that these "....wages are being rigged at what are clearly noncompetitive levels. These rates never come down and thereby add an element of inflexibility to the total contract construction market. One is hard-pressed to find reasons why this artificial wage support legislation should not be repealed." Until such time as legislation can be passed to repeal the Davis-Bacon Act and related laws, we respectfully urge you to exercise all possible influence to have President Ford suspend the Davis-Bacon Act.

Precedent for suspension of Davis-Bacon and related laws was established in February, 1971. The President noted in his proclamation suspending the Davis-Bacon Act and related laws that the nation was confronted by a set of economic conditions which; when taken together, created an emergency situation. We submit to you that the economic conditions presently confronting the nation are more grave than in 1971. Now is the time to suspend Davis-Bacon as a positive anti-inflationary move.

We would welcome an opportunity to further discuss with you at your earliest convenience the Davis-Bacon Act and its economic impact.

Very truly yours,

Michael G. Callas
President

MGC/rg

NOTES ON A HEALTHY ECONOMY WITHOUT INFLATION

BY

DR. RONALD CARROLL

ECONOMIST

August, 1974

. RANDOLPH WEBDING | AIA | 2901 FIFTY-EIGHTH AVENUE NORTH | ST. PETERSBURG, FLORIDA 33714 | (813) 527-1[illegible]

SUMMARY OF BACKGROUND - DR. RONALD CARROLL

DOCTOR OF ECONOMICS - UNIVERSITY OF VIENNA 1936

1936 - 1938	JUNIOR ECONOMIST FOR EUROPEAN OIL COMPANIES
1939 - 1943	INSURANCE BROKER IN NEW YORK CITY
1943 - 1945	(WORLD WAR II) OFFICE OF STRATEGIC SERVICES (OSS), INTELLIGENCE AGENT
1945 - 1960	METRO-GOLDWYN-MAYER INTERNATIONAL, SALES EXECUTIVE
1960 - 1969	METRO-GOLDWYN-MAYER INC., DIRECTOR OF RESEARCH
1969	ELECTRONIC INDUSTRY ASSOCIATION, WASHINGTON, D. C. CONSULTANT ON COMMUNICATIONS OF THE FUTURE
1969	ZENITH RADIO CORPORATION, CHICAGO, CONSULTANT ON PAY TV

SINCE DECEMBER 1969 - C. RANDOLPH WEDDING & ASSOCIATES
ST. PETERSBURG - ECONOMIST

These notes:

1. Examine the present economic policy which has not stopped inflation and has endangered the health of the economy; and
2. Suggest methods to halt the inflation and restore the health of the economy.

To understand the problem the terms "inflation" and "healthy economy" need definition.

Inflation is a condition of the economy when the supply of money rises faster than the supply of goods and services. This increases the demand for goods and services faster than their supply. The resulting rise in the prices of goods and services therefore are not a cause of inflation, but are the results of inflation. The rate of price increases reflects the severity of inflation.

It has been, and still is, very popular to make simplistic comparisons of our economy with a steam engine or some other mechanical device. This resulted in phrases describing the economy as "overheated" or that we should "apply the brakes" or "cool off the economy."

Our economy is not a steam engine or other mechanical device. It cannot be regulated by an engineer manipulating the throttle or a driver putting his foot on the brake pedal.

Our Economy is the result of the interaction of more than 210,000,000 individuals who want to satisfy their demands for goods and services.

These individuals have inherent demands for goods and services from the moment they are born until they die. These demands for goods and services range from the cries of a new-born baby for nourishment or a clean diaper to the disposition of the dead body so that it does not become a health hazard. From birth to death individuals want to satisfy their demands ranging from the necessities of life to a myriad variety of discretionary goods and services. These discretionary demands include everything human ingenuity has created from minimal food, clothing and shelter to material luxuries and spiritual services.

Individuals have an inherent desire to satisfy their demands for these goods and services through their own efforts and through their own free choice. As a result human beings want to engage in satisfactory occupations and to exercise their free choice for goods and services. They want to do this in any way they choose and should be permitted to do this as long as their freedom of choice does not endanger the health or security of others.

Thus, a healthy economy is one in which the largest number of individuals, through their own efforts and their own free choice, can satisfy to the highest degree their demands for goods and services.

To "stop inflation" the government's economic interventionists and "fine-tuners" enacted wage and price controls in August, 1971.

This coincided with:

A) Tremendous increases of spending by the federal, state and local governments;

B) Growing deficit financing and tax increases by the same governments;

C) A wave of laws, regulations and other measures generated by environmental and consumerist concerns, many of which seemed to border on hysteria, if not outright hostility towards our way of life.

D) The sale abroad, mainly to the U.S.S.R. and Communist China, of much of the U.S.A.'s reserve stock of agricultural products.

E) The Arab oil embargo of last fall and winter combined with huge, arbitrarily imposed oil price increases by the governments of the oil exporting countries.

F) Lately a very restrictive, high interest monetary policy by the Federal Reserve System.

Wage and price controls did not "stop inflation"; they aggravated inflation. By holding prices to artificially low levels, they stimulated demand for goods and services. Con-

trols on profits impeded the formation of capital and the incentive needed to expand production and thereby failed to raise the supply of goods and services. At times domestic prices were pegged so low by the government economic "fine tuners" that U. S. producers either preferred to export their goods to foreign free markets or stopped the production of certain goods.

As a measure to control, let alone stop inflation, wage and price controls were counter-productive in the truest sense of this word. They were as effective a cure as a sick patient's action to break his thermometer.

Spending on all levels of government continued unabated. Starting in the happy world of the "New Frontier", continued during the "Great Society" and the Nixon years all that was needed to correct any deficiency in our lives was (1) a new law, (2) a new or expanded government bureau properly overstaffed, and (3) the expenditure of several million dollars which frequently grew into billions. This usually was duplicated and sometimes triplicated or quadruplicated on the state, county and city levels of government. Instead of the intended instant salvation, these laws and appropriations generated additional taxes or necessitated tremendous government borrowing. Most of these laws fuelled the fires of inflation by diverting capital needed for the expansion of the supply of goods and services to the consumption of goods and services. Some of these laws directly impeded the production and supply

of goods and services.

Federal, state and local government budget deficits create enormous inflationary pressures. In addition to the billions of dollars of demand for goods and services, ranging from aircraft carriers to paper clips and from the salaries of village janitors to the salary of the President of the U.S.A., they also increase the demand for credit.

However, whether the government budgets are balanced may be secondary in inflationary impact to the size of the budgets, their allocations of expenditures and their method of taxation.

Government expenditures fall into two general categories:

(1) Those which satisfy the demand of individuals for goods and services which should be supplied by government.

(2) Those which increase the demand of individuals for goods and services above the level of their own efforts.

Examples of the former category are expenditures for police and the judiciary and national defense, as people want to live protected from the threats of domestic criminals or foreign agressors, expenditures for education, or communication facilities such as highways or airports.

Examples of the latter category are expenditures for our present welfare system or farm price supports.

Construction of a new or improved highway which expedites the delivery of goods and services can be anti-inflationary. On the other hand, using the taxes paid by consumers to buy up farm products at higher than market prices to keep them off the market can only be inflationary.

Most of the new laws and government appropriations were of the social-welfare variety, designed to increase the demand of individuals for goods and services above the level of their own efforts and had highly inflationary effects.

At present more than 81,000 federal, state, county, municipal and other government bodies spend and tax.

Of the almost 15,000,000 government employees in the U.S., about 3,000,000 work for the federal government; 11,700,000 work for state and local governments.

Paralleling expenditures, debts and taxes, the number of state and local government employees increased at a faster rate than the number of federal employees. Since the 1960's the number of state and local government employees increased at a rate four times faster than the population.

Disregard for the mushrooming growth of state and local governments, budgets and deficits contributed materially to our inflation. It is immaterial whether money is spent or a tax levied by the federal government in Washington or by the local government in Podunk. The important factors are: What

is the money being spent for, how is it being raised, what is the total and finally, is the budget in balance.

In order to reduce the federal budget deficit a 10% income tax surcharge was enacted by the Johnson administration. After continuing it first in full and later at a 5% rate, this income tax surcharge finally expired on July 1, 1970. Income taxes are reputed to be anti-inflationary. The evidence on hand suggests the opposite.

Enactment of the income tax surcharge during a period of full employment increased the wage demands of employees in order to be compensated for their loss in take-home pay.

Corporations' after tax profits were reduced by this tax surcharge. The increased wage demands of employees raised production and operating costs. To compensate for both, business raised prices of goods and services.

Whenever the tax surcharge and the increased production and operating costs could not be compensated by price increases, profits fell. This reduced retained earnings, an important source of capital for the investment in new plants and equipment and increased the demand for credit. Thus the income tax surcharge became highly inflationary because it:

Increased wage demands

Increased operating expenses

Caused price increases

Reduced profit margins

Impeded the formation of capital

Increased the demand for credit

One year after the federal income tax surcharge expired, business' profits and capital formation were curtailed by the imposition of wage and.price controls.

During this entire period enactments or increases of state or local personal and corporation income taxes, raises in social security taxes and of property taxes became virtually an annual ritual. The individual and combined results of all these new or increased taxes were the same as those of the Johnson federal income tax surcharge and resulted in more inflationary pressure.

Concern for the environment suddenly became fashionable. Disregarding the fact that many if not most of the degradations of our environment were the result of governments' failure to (1) live up to their responsibilities to dispose of liquid and solid wastes in the least obnoxious and most efficient manner, and (2) enforce laws and regulations long on the statute books, new extremely stringent laws and regulations were enacted. Usually drawn up by lawyer-politicians with little engineering or economic input, they tried to undo many years of neglect and achieve semi-pristine conditions in impossibly short periods of time.

Some production facilities as a result had to shut down. Others had to invest huge amounts of capital to clean up stack or waste water emmissions or correct other deficiencies. The construction of new plants and other facilities was delayed by

costly and lengthy governmental environmental impact procedures or by litigation started by environmental groups. Some of the latter at times seemed to border on the frivolous.

Another almost equally fashionable movement accused American business which had produced the highest standard of living and made the U.S.A. the envy of the world in material possessions of careless neglect if not outright deceit of consumers. New stringent safety regulations, warranty standards and other measures diverted additional capital from supply increasing investments. The combination of reduced profit margins due to price controls, rising tax loads and capital investments in environmental and consumerist endeavors retarded the expansion of our supply of goods and services, made it lag behind the growth of demand and contributed substantially to our severe inflation.

In 1972 the U.S.A. sold much of its reserve supply of agricultural commodities abroad, mainly to the U.S.S.R. and Communist China. Whatever return benefits this country received from Russia and China has not yet become apparent. This drastic reduction in their supply generated price increases of these commodities which in turn drove up virtually all food prices at the retail level.

Oil is this country's principal source of energy. A substantial part of this country's supply of crude oil and refined products must now be imported.

Last fall the governments of the Arab oil producing countries enbargoed oil shipments to the U.S.A. for political reasons. These same governments and the governments of the other oil exporting countries simultaneously decreed huge oil price increases. The resulting oil shortage reduced the production or availability of many goods and services. The increased costs of oil, after the lifting of the embargo, continue to be refected in higher costs of all goods and services directly or indirectly using oil as their energy base.

Money is the life blood of the economy. There are segments of the economy which can function, which might even thrive, without oil, coal, steel, lumber or almost any raw material. There is no segment of the economy which can function without money.

Because of its key function in the economy, the cost of money is reflected in the price of all goods and services. The same government which professed great indignation whenever product X or service Y went up a few percent consciously and deliberately doubled the cost of money within a short period of time, and in addition drastically reduced its supply.

The professed purpose of this attack on the economy's jugular vein is to "stop inflation by curbing the demand pressures" and thereby re-establish a balance in the economy which will reduce prices. Such an "anti-inflation" program was tried between 1968 and 1971. It failed then to stop inflation, caused a

recession and was abandoned. The same will happen now, and it should be abandoned before it again causes a recession. Demand constantly grows in the private sector of the economy because of the natural desire of people to (1) procreate, and (2) improve their standard of living.

Each year the natural growth of the population adds about 2,000,000 new consumers to the demand side of the economic ledger. People inherently are acquisitive. As a result the demand pressure constantly increases because the addition of possessions to people is the most tangible manifestation of an improved standard of living.

Demand in the public sector of the economy is being directly stimulated by the political pressures of a high interest-restrictive monetary policy. It causes cutbacks in the construction of new plants and equipment, in the modernization of existing plants and the replacement of worn out facilities. It also increases the cost of any new or modernized plants and equipment. Thus expansion of the supply of goods and services to balance the demand is being retarded or made more costly, adding to the inflation.

Employment reductions caused by cutbacks in the construction of new or modernized plants and equipment increase unemployment and thereby raise government expenditures for unemployment and welfare. Trying to compensate for this with a public works program will only aggravate inflation.

The higher borrowing costs created by higher interest rates reduce business profits and personal income and also reduce tax payments to the government.

Federal, state, and local governments as a result are faced with reduced tax revenues, larger government expenditures for unemployment and welfare and higher borrowing costs to finance rising government deficits.

The recent sale of 9% U.S. Government Bonds, which this restrictive-high interest rate monetary policy caused, drew funds from the nation's savings institutions and from cashed in lower interest rate government bonds. Its net result was less capital for the expansion of the private sector of the economy, especially the supply of housing, and a substantial cost increase in the federal government's debt service without a commensurate inflow of funds into the treasury.

Therefore, the total effect of a restrictive monetary policy is not anti-inflationary but recessionary and inflationary. It reduces the supply of goods and services, drives up costs and through increased government deficit financing for expenditures which increase the demand of individuals for goods and services above the level of their own efforts (unemployment and welfare payments), further increases inflationary pressures.

To try again at the present time the high interest-restrictive monetary policy, which had failed before, is especially damaging to the economy because of its urgent and immediate need

for huge amounts of capital to fight inflation by the only really effective means: increase of the supply of goods and services. The requirement to make up for the inadequate capital formation during the price control-high tax period, and for the lagging productive capacity expansion because of the enivronmental-consumerist trauma recommends a new policy to eliminate inflation and keep a healthy full employment economy.

The criterion for each proposed measure of this new policy must be: Will it help expand the supply? If the answer is, "It does," then it should be implemented. If the answer is negative, then it should not be implemented.

Some proposed measures of this new policy may run counter to popular notions, which although not supported by economic facts or expertise have been mainstays of the public rhetoric. Following this rhetoric, frequently in order to curry the favors of special interest groups, be they old people, cattle raisers, blacks, house builders, school teachers, defense contractors, or whatever, has been and is a prime cause of inflation.

This inflation resulted from violations of the most basic economic rule, the law of supply and demand, over a long period of time. It can not be overcome by the waving of a magic wand. What took time to do will take time to undo. New steel mills, lawyers, shoe factories, oil refineries, cattle herds, bakeries, medical doctors, corn fields, water dams, carpenters, etc. can not be planned, designed, built, raised, grown, educated and

trained overnight--and they all require capital, not the winning of a popularity contest.

Therefore, the following program is herewith proposed:

(1) Do not establish the Cost of Living Council

This is mentioned first not because of its importance, but because it was the first anti-inflation measure proposed by President Ford.

The C.O.L.C. will not increase supply.

As a "monitoring" body without authority, it is an empty gesture only wasting tax money to gather information which is readily available from the news media. President Ford without the C.O.L.C. tried to influence a General Motors pricing decision. Existence of the Council would not have made the President's intervention any more effective.

For psychological reasons re-establishment of the C.O.L.C. could be highly inflationay. Many businesses and labor leaders might see it as a threat to re-establish wage and price controls. They might as a result demand now higher wages or prices than they would otherwise, knowing that they can expect to operate in a free market.

(2) Abandon the high interest-restrictive monetary policy

An adequate supply of money at reasonable interest rates is a prerequisite for an expansion of the supply of goods and services which will re-establish the equilibrium of our economy and end inflation. Without money the supply of goods and services can not be expanded. If interest rates are too high, the expanded supply of goods and services will be burdened with high costs, which either have to be reflected in higher prices or will because of competitive pressures, lead to business failures. Such failures in turn will again reduce the supply of goods and services.

Therefore, the Federal Reserve should adopt a stable, long-range monetary growth policy. Under it the money supply would increase each year at a sufficient percentage providing for an adequate expansion of the supply of goods and services at reasonable interest rates.

The cost of money, interest rates, should find its own level in a free market, supplied sufficiently with money and regulated only by stable Federal Reserve rules which will ensure the liquidity and solvency of our banking system.

Stop-and-go Federal Reserve regulations which upset the balance of the economy at irregular intervals have to be discontinued.

The Federal Reserve can influence the business climate. It can shake or restore the confidence of consumers in the future and the actions of 210,000,000 independent-minded consumers exercising their free choice for goods and services will affect the general business climate.

The notion that by pushing buttons and studying econometric models the economy can be "fine tuned" is a fallacy. Every time "a button is pushed" the direction of economic policy is changed. Every change in economic policy has different effects on different consumers. Every change in economic policy upsets the plans for the future which business made to meet the expected future demand of consumers.

The Federal Reserve can provide the soundest business climate if it discontinues its economic "fine tuning", which to date has a perfect record of failure.

Any plan to allocate loans by the Federal Reserve or another government body will produce the same disastrous effects which government allocation schemes of other goods or services have produced in the past.

(3) Income tax on savings accounts

To encourage the formation of new capital and simultaneously reduce demand pressures from consumers, the personal income tax on savings account income should be repealed.

(4) Capital gains and losses on stocks and bonds

The stocks and bonds markets will have to be a principal source of capital. To encourage investments by the public in stocks and bonds, the capital gains tax on stocks and bonds transactions should be cut in half.

Capital losses on stocks and bonds transactions should be made fully deductible against ordinary income.

(5) Investment tax credit

One of the few sound moves of government fiscal policy during recent years was the investment tax credit. By giving tax incentive

to the investment in new plants, facilities and equipment, it increased the supply of goods and services, reduced production and operating costs, and created employment. Few government measures ever contributed more to economic health and were more anti-inflationary.

This tax credit was treated like a yo-yo. Enacted under President Kennedy, it was repealed under President Johnson, re-enacted under President Johnson, repealed under President Nixon and re-enacted again under President Nixon--a perfect example of the confusion of the economic "fine tuners".

Planning, designing, financing, building and finally putting into operation of new or modernized production facilities frequently takes years. Continuity of the tax consequences of business activities are a prerequisite of sound planning for the future.

Therefore, the investment tax credit should be made permanent and doubled.

(6) Export-import bank

Organized to aid exports and imports between the U.S.A. and foreign countries, this government agency now extends credits to foreign

buyers at terms substantially more favorable than are available to any domestic borrower. Thus it has become a drain on capital and subsidizes foreign demand for goods and services. Foreign buyers recently obtained 7% loans from the Export-Import Bank, while the prime rate for U.S. borrowers hovered around 12%. It should be liquidated and foreign borrowers should seek their financing from regular financial sources at market terms.

(7) Government budgets

Any government program on any level established in recent times instantly became a sacred and untouchable institution. Its abandonment and abolition would destroy the Republic. At least so it seems. Politicians run for office on platforms of governmental economy. As soon as they are elected they join the spending bandwagon under Harry Hopkins' credo: "We will spend and spend; we will tax and tax; we will elect and elect."

There are no sacred and untouchable government programs, except for the public debt payments. All other programs on all levels of government can be safely reviewed. An honest review will discover enough waste and inefficiency in every one

of them so that government budgets can be brought at least into balance or better still will show surplusses.

(8) The environmental problem

During the Vietnam War inflation was correctly blamed on the government's endeavor to have both "guns and butter". Similar blame must be placed on the crash effort to improve the environment.

Until the profit base of business is large enough to generate capital for both the expansion of goods and services and for the establishment of semi-pristine conditions, our choice will be between "butter and a semi-pristine environment now".

This does not mean that the environment should be neglected. The environmental improvements should be continued on a reasonable basis, within sound engineering and economic capabilities and without hysteria. This will mean a stretch out of the time required to reach certain goals, revisions of some standards and norms, and a change of thinking, especially among government officials which recognizes that the material

wellbeing of people must have precedence over the roseat spoonbill's.

(9) Consumerism

Business' social function is to satisfy the demands of its customers for goods and services of the best quality and at the lowest cost. In a free competitive market only those businesses succeed which satisfy their customers. Businesses which do not do this, which provide shoddy products or services or overcharge their customers can not and do not remain in business.

Consumerism did not improve the quality or lower the price of goods and services. It provided more income for lawvers, increased the judicial log jam, created more government jobs and by raising the cost of business, increased prices.

The only government protection the public needs is a rigorous enforcement of the existing anti-trust and fraud laws. This and the competition of a free market have given us the highest standard of living in the world. They can continue to do this in the future.

Therefore, the proposal to create a Federal Consumer Protection Agency, which is

supposed to protect consumers before some 50-odd other Federal agencies which were originally set up "to protect consumers", should not be enacted.

(10) Government interference in the market's price mechanism

While inflation increased, the rise in prices was never uniform. Some rose faster than others, some only rose as a consquence of other products' or services' price increases, and some declined because of competitive and supply pressures inspite of inflation.

When supplies of goods and services will start growing faster than demand, inflation will abate and prices generally will start declining. These price declines will also not be uniform. Some will fall faster than others, and some will fall only as a consequence of other price declines.

When this will happen some suppliers, especially those with powerful lobbies, will ask the government's interference to protect them for the sake of the "public interest". Few phrases in modern times have been more misused than "public interest". To cattle breeders the "public interest" demands low

feed prices and high meat prices. The corn grower's "public interest" demands the exact opposite. The same examples of special interest lobbies using such rhetoric successfully with government have time and again distorted the economic balance.

In reality the "public interest" demands that prices be left to decline without government interference. One decline will trigger others as supplies will increase, and in due course, the economy will find its new equilibrium.

(11) Labor agreements

Industry or nationwide labor agreements which hamper progress and efficiency and try to perpetuate jobs for which there no longer is a need, are monopolistic by their very nature and highly inflationary.

The economy changes constantly because people and their tastes and desires change. New products create new life styles. New businesses spring up, some existing businesses grow, while others stagnate or disappear. As a result, the demand for labor changes. Because of rapid technological advance, the number of persons who will be in the same occupation during their entire life will rapidly diminish.

This may be bad news for the leadership of some unions whose membership may be diminishing. It is good news for the individual workers.

Ever since ancient man discovered the club and with it eventually formed the first wheel, humanity has benefited from technological progress.

The benefits of this progress manifest themselves in the millions of well-paying jobs created by new industries such as TV, computers, petro chemicals, and jet planes.

Labor agreements which perpetuate feather bedding or hamper technical progress and more efficient production or procedures should be made illegal.

(12) Foreign trade

Import duties and even more import quotas have severely restricted the supply of many goods and services. Invoking the much misused phrase, the "public interest", special interests have been protected from foreign competition by these duties and quotas.

In reality the public will be better off if some of its demand for goods and services will be met by more efficient suppliers from abroad. This additional competition and

source of supplies will force U.S. suppliers to improve their efficiency, and the quality and prices of their goods and services. Even if some U.S. suppliers should be unable to do this and would go out of business, the public at large will be better off as it will have better goods and services at lower cost. The imports from abroad, in turn, will give foreigners the U.S. currency to buy U.S. goods and services from other, more competent U.S. suppliers.

(13) Welfare reform

The shortage in the supply of labor, especially skilled labor, is as much a cause of inflation as the scarcity of goods or capital. To overcome inflation, the supply of labor has to be increased. This should be accomplished not by stimulating unemployment through a high interest-restrictive money policy induced recession, but by returning millions of welfare recipients into the labor force.

Nothing is more demeaning for individuals than to be on the dole. It has been and is a tragic phenomenon that during times of virtual

full employment and labor shortages, the number of welfare recipients constantly was rising. This was the combined result of minimum wage laws, rules which self-perpetuated welfare recipients, put a premium on the disappearance of fathers from welfare families, and by having no time limits on welfare payments, removed the most important incentive for welfare recipients to look for ways and means of supporting themselves.

The removal of residency restrictions for welfare recipients made it attractive for the least skilled and qualified to move to areas where they had the least chance for employment but could obtain the most generous welfare payments.

The long overdue restructuring of welfare should provide for:

(a) Incentives and opportunities to acquire skills

(b) National equalization of payments, based on the local cost of living, which will remove the incentive to move to areas where there

are no opportunities for employment but higher payments.

(c) Incentives for fathers to stay with their families.

(d) Care centers for children whose mothers want to work.

(e) Welfare payment time limits for able-bodied welfare recipients.

(f) Repeal of the minimum wage law which increases unemployment and eliminates employment opportunities for the unskilled and keeps them on welfare.

(14) Taxation

In a healthy economy the largest number of individuals through their own free choice can satisfy to the highest degree their demands for goods and services; therefore, there is no "good" tax, the same as there is no "good" larceny. Any tax or any larceny takes away from individuals money which they then can not use for their own good purposes.

Taxes either reduce the amount of capital for the formation of new sources of supply of goods and services or if they are excise or sales taxes, directly increase the costs of goods and services.

In particular, an increase in the excise tax on gasoline is immediately reflected not only in the cost of this product, but generates increased prices of virtually all goods and services, as gasoline costs affect the transportation costs of the entire economy.

The notion that inflation should be stopped by reducing demand through higher taxes comes from the same school of thought that a recession or depression is needed to curb inflation. This notion should not receive further consideration. The failure of the Johnson 10% income tax surtax is conclusive proof of its fallacy.

The answers to the balancing of government budgets should come from lower expenditures, government reorganization and less government on all levels, and not from higher taxes.

(15) Water management

During the last few years, the United States virtually stopped the management of its water resources. As a result the development of hydro-electric energy has ceased,

flood control and irrigation projects have been virtually abandoned, potable water supplies in some areas have been curtailed, and the development of recreation facilities has been hampered. Virtually every spring large areas of this country are being subjected to devastating floods which destroy property and damage future crops. Once the floods have passed, the same areas again frequently are damaged by drought in the same year.

Discussions of "Project Independence" hardly mention expansion of this country's hydro-electric capacity. It is the only presently known clean source of energy generated by a constantly renewable resource, water. But hydro-electricity is being sloughed off with the statement that its potential in the U.S.A. is "exhausted". A strange alliance of oil importers, public utility companies and environmentalists created this situation.

Hydro-electric power must not be synonymous with public power. Hydro-electric plants can be built by public utility companies, probably better and cheaper than by

government. As an alternate way of hydro-electric development, the dams could be built by government and the water energy sold to the public utility companies by the government. The public utility companies then would generate the power and supply their customers.

Besides thus contributing to the increased supply of domestic, clean energy which does not deplete non-renewable resources, tremendous "fringe" benefits would be obtained.

(a) Additional flood control saving annually enormous property and crop damages.

(b) Irrigation for millions of acres of additional land, now arid or subject to the damaging vagaries of possible drought periods, thereby increasing food supplies and making them more predictable.

(c) Preservation of threatened sources of potable water supply.

(d) Additional recreation facilities for a growing population seeking the

outdoors, not only along the water storage reservoirs, but also in the vast land areas which this stored water will keep green.

Water management, including hydro-electric development, should receive a high priority in the restoration of our economy.

(16) The Public Service Program

The economic "fine-tuners" of the Federal Reserve who are trying to "wring out inflation" by curbing the expansion of the supply of goods and services through their restrictive monetary-high interest policy recently started to concede that their "master plan" may create a recession which could lead to a depression.

Never hard up for another interventionist economic proposal and not yet dismayed by the experience that every new intervention designed to correct the damage done by the preceding intervention only has made the previous damage worse, here is the "fine-tuners'" latest pipe-dream:

Start a public works program to employ the people who will lose their jobs producing and supplying goods and services because of the restrictive monetary-high interest policy.

A prime reason for inflation is excessive spending and unproductive employment in the public sector, on the federal, state and local level. Starting a massive public service program to compensate even in part for the terrible damage being done to employment in the private sector through the restrictive monetary-high interest policy will obviously wipe out any budget cut which the federal government now is considering and will kill the anti-inflation benefits of the budget cut.

Because of the reduced tax revenues due to this loss of employment, the budget deficit will be increased. Fewer people working in the private sector will cut the production and supply of goods and services. This plus more people in the already heavily overstaffed, underproductive public sector will mean even more inflationary pressure.

The totality of the absurdity and futility of this glorified WPA proposal must be clear to everyone still capable of logical thinking.

(17) Reduce and modernize government

The governments' budget problems have become too big to be solved by cutting waste and inefficiency out of the present structure.

Neither can it be solved by reducing the appropriation for one government activity only to switch the same or an even larger amount to another government activity. Federal, state and local governments today absorb too much of the GNP, employ too much of the national work force and continue to grow. The main reason is our federal system under which many government functions are duplicated, triplicated or even quadruplicated on the federal, state, county, city and even district level.

In the past when it took days to travel to a state capital and weeks to go to Washington, local government was needed. Today's modern communications facilities provide virtually instant contact from any point to any other point in the U.S.A.

In the past persons born in a state usually lived their entire lives in that state. Now 20% of the population move each year. As a result the hearts of few persons swell with pride when they see their state or local government officials in person or on TV.

The argument is being advanced in favor of local government, that citizens have more influence or control over it. The rate of voter participation in elections indicates that the citizens apparently have less interest to exercise their control over local government than over the federal government. Voter turnout is the highest in a presidential election and usually declines in proportion the more local the election becomes. Most voters do not even know who their local representatives are or what they have done or promise to do.

With 90% of our intercity passenger traffic, much of it interstate, being done by automobile, what justification is there for fifty different standards for drivers' licenses, drivers' financial responsibility or car safety or anti-pollution equipment?

Why should there be 23,390 school districts in the U.S.A., all with their own bureaucracies, taxing powers and different educational standards? Chances are that pupils graduating from one school district in all probability will spend much of their adult lives working and applying what they had learned in other parts of the country.

Why should there be different building codes in different parts of the country? Should houses in Maine be less well built than in California?

Why should there be different legal standards in different parts of the country? Are murder or fraud different crimes in Florida than in Alaska?

The time has come to eliminate the overlap of federal, state and local governments and to modernize, simplify and reduce in size the entire governmental structure. State government has lost its usefulness. Progress has made it obsolete, and it can be eliminated.

Two levels of government will suffice: a central administration for national matters (foreign relations, defense, education, law enforcement and the judiciary, highways, etc.) and local administrations for local matters (traffic control, garbage and sewage disposal, street cleaning and lighting, zoning, etc.). The savings in cost of government and the improvement of government efficiency will be enormous.

This will make it possible to reduce taxes and balance budgets without the loss of any government service which really satisfies the needs of the people. It even should be possible to improve government services at a reduced cost, something that did not occur in recent years at constantly rising costs.

It will make it possible to reduce virtually all taxes.

The resulting increase in disposable income of individuals and corporations will enable the former to satisfy more of their demands for goods and services or to save more, thereby creating new investment capital. It will enable the latter to generate more retained earnings for new plants or facilities, and in addition reduce prices due to the cost reductions generated by the tax savings.

POSITION PAPER
OF THE
AMERICAN APPAREL MANUFACTURERS ASSOCIATION
AT THE
SUMMIT CONFERENCE ON INFLATION
DEPARTMENT OF COMMERCE
DETROIT HILTON
SEPTEMBER 19, 1974

Presented by:

W. James Chamberlain
President, AAMA

AAMA POSITION PAPER AT INDUSTRY/BUSINESS
SUMMIT CONFERENCE ON INFLATION

So many economic ideas which are basic and fundamental have and, I'm sure will be presented today that I will primarily confine my remarks to what the American Apparel Manufacturers Association feels is its recommendation to the President on a subject which we feel we know -- the apparel business.

The domestic apparel manufacturing industry is one of the most competitive labor intense segments of our economy. We have over 22,000 manufacturing units employing over 1,300,000 people. This amounts to one out of every 14 manufacturing jobs in the United States. One-fifth of all women engaged in manufacturing activity, are employed by our industry. In numerous smaller communities, the apparel manufacturer is the major or only employer.

Our products constitute one of the necessities that are sold directly to the American consumer. Therefore, we feel that the United States apparel industry is a leading indicator of the American economy. Americans spend approximately 18% of their non-durable dollars on clothing and accessories. What happens to the apparel market now, because of its closeness to the ultimate consumer, is a strong indicator of what will happen in the balance of our economy during the next several months. The consumer is now telling us that she is buying fewer items of clothing on a more selective basis.

Higher apparel pricing caused by the cost push has resulted in the sale of fewer units at higher prices. Two major ingredients of the cost push were (1). run-away increases of world wide

raw material prices (our synthetic fabrics are petro chemical derivatives, and, of course, you are all aware of what happened to cotton and wool prices last year) and, (2). the record high cost of money. It is our opinion that raw material costs have now generally leveled off (after a jump of 25% overall) and in some cases are coming down because of the now abundant supply and a softening in demand. However, with the continuing cost of record high interest rates, and particularly with many medium and smaller manufacturers facing an insufficient supply of money, this industry is being placed in a precarious financial position. While there is no need to increase capacity in our industry in the present economy, there is a very real need to not only continue to finance our operations, but also to continue the capital expenditures necessary to keep us competitive in the world markets. Unless we can obtain operating and capital improvement dollars at less cost, the failure of many apparel firms will create an artificial shortage of apparel supply analogous to the current shortage of housing. If the government continues to take steps to further deflate consumer demands, the result will be self-defeating by bringing about high unemployment and, thus, snowball into a further reduction in consumer demand. Last week, I chaired a meeting at which the majority of the large producers in our industry were in attendance. Almost without exception, these manufacturers were tightening their belts -- cutting inventories, eliminating inefficient or marginal units, and, yes, reducing work weeks or laying off production workers.

Our recommendation to help cure these ills is for the government to immediately take steps to reduce the cost and to increase the supply of money significantly. Hand in hand with this,

the government should also have incentives of increased tax credits to draw equity money into our industry and should reduce or eliminate taxes on dividend payments so that stockholders will stay and/or come into the equity market which has been the financial backbone of the economy. We would further suggest that some technique should be devised to spread bank portfolios to more than the present limited number of major company holdings. Investment capital must be attracted again to the equity market.

Controls, regulations and requirements placed on American business have become excessive, and have resulted in both greatly increased domestic product prices and in making it extremely difficult for us to compete in the world market. One figure which our industry's prime suppliers, the textile mills, are quoting is that over 50% of their capital expenditures are being used to conform with Environmental regulations. Much of our capital is being used to comply with OSHA. While many constraints may be commendable, the dollars used to comply with these regulations are not making us more efficient, not helping us hold our prices down and not making us more competitive in the world market.

Protection requirements of all kinds must be reasonable and imposed on a measured long range basis consistent with need and with what the economy can afford. Rather than requiring uneconomic constraints on productivity, the Government should encourage Research & Development to obtain higher productivity, greater efficiency and cost reductions, through tax incentives and credits.

The long range application of funds generated by the preceding recommendations will prooouce better apparel for lower prices. In the absence of some such actions, I'm afraid the nation, in the months ahead, will experience a serious shortage of reasonably priced clothing.

As I mentioned earlier, the apparel industry is a very competitive industry with 22,000 manufacturing units in the United States. However, in recent years, we have been losing units at the rate of approximately 1000 per year. Therefore, I feel compelled to comment on this subject. I feel, and I think I can speak without reservation for the vast majority of our membership in saying, that government regulations, standards, reports and red tape are making it impossible for the small to medium size manufacturer to exist. Government effort seems to be directed toward decreasing competition and increasing concentration! This is an unhealthy attitude. Isn't it time to change that attitude, and instead to start eliminating some of the sticks that have been thrown in our road. The economic health of our country will improve when government starts to work <u>with</u> the small to medium size manufacturers. They can bring healthy competition back into the free enterprise system.

In addition to my previous comments which have been more directed at our particular industry problems, I would like to briefly comment on two items of a more general nature.

First, we strongly endorse the overwhelming concensus against government controls on prices or wages. Except in very extreme situations, the free market concept must be permitted to operate

without interference. And secondly, we feel that the Federal budget in Fiscal '75 should be balanced and maintained below the $300 billion level. Fiscal '76 and long range planning should seek surpluses to begin a program of Federal debt reduction. Major surgery on the Federal budget to eliminate waste and duplication and to realistically establish priorities on the basis of what the country can afford, not just what is politically expedient, must dominate our fiscal actions.

Thank you.

CHATHAM MANUFACTURING COMPANY
ELKIN, NORTH CAROLINA 28621
TELEPHONE —(AREA 919)— 835-2211

HUGH GWYN CHATHAM II
CHAIRMAN OF THE BOARD

13 September 1974

Statement by Hugh Chatham - Pittsburgh - 16 September 1974

Mr. Secretary and Fellow Participants:

I am pleased to be with you today, and in the words of Tiny Tim, "God bless us everyone!". We shall need that blessing in this endeavor!

Because I wish to associate myself with the more detailed remarks of my friend Morton Darman, I shall keep my personal statement brief and general.

Concerning the present state of affairs, shortages, both real and artificial, are the major culprit. A policy by the Government of attacking the artificial shortages, such as Mideast oil pricing, may accomplish something, but inflation will best be fought by a "hands off" attitude on the part of the Government and by allowing our competitive system to bear the brunt of the fight, rather than trying to achieve quick results by Government meddling and larger Government expenditures.

I am a great believer in a free economy, but this means freedom at all levels: Freedom for farmers to plant what they wish, freedom for manufacturers to select the markets that offer the best opportunities, freedom from featherbedding, and freedom for workers to have the right to work where and when they see fit without the artificial constraints of union rules and a closed shop.

We need a massive reduction in Government spending to provide a more than balanced budget and to provide substantial tax cuts for both individuals and businesses.

Such a program will reduce prices, increase purchasing power, lower interest rates, and provide investment money for the tools of production that make possible a continuously increasing standard of living.

I can sum up my beliefs in two words: Adam Smith!

13 September 1974

Statement by Hugh Chatham - Pittsburgh - 16 September 1974

Mr. Secretary and Fellow Participants:

I am pleased to be with you today, and in the words of Tiny Tim, "God bless us everyone!". We shall need that blessing in this endeavor!

Because I wish to associate myself with the more detailed remarks of my friend Morton Darman, I shall keep my personal statement brief and general.

Concerning the present state of affairs, shortages, both real and artificial, are the major culprit. A policy by the Government of attacking the artificial shortages, such as Mideast oil pricing, may accomplish something, but inflation will best be fought by a "hands off" attitude on the part of the Government and by allowing our competitive system to bear the brunt of the fight, rather than trying to achieve quick results by Government meddling and larger Government expenditures.

I am a great believer in a free economy, but this means freedom at all levels: Freedom for farmers to plant what they wish, freedom for manufacturers to select the markets that offer the best opportunities, freedom from featherbedding, and freedom for workers to have the right to work where and when they see fit without the artificial constraints of union rules and a closed shop.

We need a massive reduction in Government spending to provide a more than balanced budget and to provide substantial tax cuts for both individuals and businesses.

Such a program will reduce prices, increase purchasing power, lower interest rates, and provide investment money for the tools of production that make possible a continuously increasing standard of living.

I can sum up my beliefs in two words: Adam Smith!

Lloyd Jay Colenback

Hon. Frederick Dent
Secretary of Commerce

Dear Mr. Dent:

I am an owner of a small business in Troy, Michigan and in attendance today. We are presently developing a 4 million dollar construction project in Troy providing indirect employment for several hundred people. We are a small company with many demands upon us including too many for my secretary to type this letter so I'm doing it myself this evening at home.

QUESTION: Why was this meeting so little publicized? It took me four days to develop the time and place. Neither Congressman Huber's office nor the Troy Chamber of Commerce was even aware it was being conducted.

I'm very tired of hearing the same representatives of big government, big business and big labor give speeches about inflation wherein they say absolutely nothing. I acknowledge that it is an enormously difficult problem to solve but if they have no solutions other than self-serving ones(price increases, wage increases, expenditure increases; why don't they remain quiet?

I submit the following fundamental, specific and unpopular but effective recommendations to reduce inflation almost immediately. Our problem is not combatting inflation its refusing to sacrifice in order to accomplish it.

1. Reduce Department of Defense expenditures by 10 billion.

2. Reduce HEW expenditures by 10 billion.

3. Reduce all other governmental expenditures 10% inclddding salaries.

4. Implement "zero" budgeting procedures and require justification for each line item.

5. Revise the "unemployment" statistic by eliminating the physically impaired, students, part-time workers, female heads of household with pre-school children and other non-employed groups with virtually no capability for full-time work no matter how conscientious. Report employment and unemployment by number not by percentage. Utilize 1 billion from defense and 1 billion from HEW cuts above to provide public service employment and direct subsidies to those eliminated from the "unemployed" category.

6. Impose a 10% luxury tax on all non-food and prescription drug items with $100 credit against family or individual tax.

Lloyd Jay Colenback

7. All price increases must prove labor cost increase as prerequisite.

8. All wage increases must prove productivity increases as prerequisite--especially in governmental employment.

9. Postpone all new federal programs until a budget surplus occurs for three consecutive months.

10.. Impose a surtax on all lending institution earnings excess over 1973 without subtracting losses from security transactions.

11. Impose a surtax on all petroleum industry earnings excess over 1973 not reinvested direct(equity not debt) in North American development and exploration.

12. Moratorium on all payments under cost of living escalator clauses until the inflation rate is reduced under .5% per month for three consecutive months.

13. Moratorium on all overseas arms shipments until a federal budget surplus occurs for three consecutive months.

14. Incarcerate all persons suggesting tax cuts, increased governmental expendituresor subsidies to bankrupt corporations.

15. Impose a moratorium on printing money in excess of direct replacemnt requirement for existing currency which will be removed from circulation.

Respectfully submitted,

Lloyd J. Colenback

Lloyd J. Colenback
General Partner
The Drummer Company
2091 West Big Beaver Road
Troy, Michigan

JOHN T. CONNOR
Chairman of the Board

P O Box 3000 R
Morristown, N J. 07960

ANTI-INFLATION MEETING
PITTSBURGH, PENNSYLVANIA
SEPTEMBER 16, 1974

SECRETARY DENT:

My thanks go out to the President and you for this opportunity to present my personal views on a possible anti-inflation program. As you will see, my views differ from many others in industry. In fact, they differ even from those of some of my Allied Chemical management associates.

First of all, I wish to compliment the President for calling these meetings. Too often in the past the business community has seen government intervention into business activities without any opportunity for prior discussion. It's no fun being in on crash landings and not the takeoffs. Therefore, we welcome this opportunity to have a constructive dialogue out of which may come, if not a consensus, then some helpful ideas, suggestions and concepts

for consideration by the President and the Congress.

The background of the current economic dilemma has been adequately documented by others, such as the NAM, and I will not review the unwise fiscal and monetary decisions in the last ten years that have had such serious inflationary consequences. It does seem to me that the more recent tight fiscal controls and even tighter money policies have produced the anti-inflation results desired by those Federal Government officials responsible for the programs. But I question whether continuation of these policies for much longer is advisable or even possible. These controls have already produced a drastic reduction in home building and a slowing down of construction activities in public utilities and other industries; a decline in consumer spending, particularly for big ticket items such as automobiles; rising unemployment which probably will reach a dangerous level early next year; a rising number of bankruptcies, particularly in small businesses; and the chaos that now prevails in our free market for equity and debt issues. Now we are in a stage where the high cost of money that must be paid by individuals and businesses requiring bank loans has itself become a serious inflationary factor when reflected in the cost of goods and services. Still, the wholesale and consumer

indices go higher and higher. Realizing that the economic purists still insist that we wait for the boom of the past several years to turn into a bust before any change in policy direction is taken, I suggest that this current situation does not represent a classic model of the normal swing of the business cycle. It is much more than that because of the growing world-wide recession, characterized by growing deficits in balances of payments and balances of trade for many nations. The rapidly proliferating immediate crisis is a reflection of the high crude oil prices the energy consuming nations must pay. It is becoming all too clear that the impending bust, when it comes, will be world-wide in scope and beyond the competence of free market forces to repair.

Because of the persistence of a strong belief in official quarters of the continuing need for tight money and balanced budget policies, we must assume that these policies will continue and thus the recessionary trends will worsen for at least the next three to six months. Nevertheless, I want to state my conviction that the Federal Reserve Board should start moderating its tight money policy immediately to stop the developing liquidity crisis. The Board should not go to the extreme easy money policy it followed in 1972, but should loosen up just enough (say - 8% instead of 6% growth in money supply) to show a reversal in <u>trend</u>.

In view of the unprecedented nature of this economic crisis, I suggest the need for contingency planning starting right now to be ready to cushion and then reverse the impacts of a serious recession. Specifically, I see the need for federally supported public service and public works activities to cope with the rising unemployment problem, which by the second quarter of 1975, in my opinion, will rise above 7% nationally, and to much higher levels in some of our largest urban centers. I see the need for further financial assistance to small businesses and possibly the creation of a new RFC to save thousands of business firms from bankruptcy. I see the need for measures designed to promote the flow of available bank funds where they will be needed most in the national interest.

Beyond that, I see no need for additional financial incentives to the business community, even to overcome the many shortages of materials and supplies that now exist in our national economy. But we emphatically do need to retain the present programs that help us expand inadequate production levels for many materials and products in short supply, such as the 7-1/2% investment tax credit, the present Asset Depreciation Range, the oil and mineral depletion allowances and the export incentive program (DISC). All existing uncertainties about their continuance should be resolved and replaced by firm commitments by the Administration and the Congress to leave them in place for at least two years.

The inflationary uncertainty about the possible reimposition of economic controls should be resolved and replaced by a firm commitment that such controls will not be reinstated. The increasing supply of many goods, plus the lowering of demand as the recession progresses, should soon put an effective lid on further price increases, except for food and oil and natural gas where shortages will persist for some time.

The net effect of the spending programs I'm suggesting would be to raise federal expenditures somewhat above fiscal 1974-1975 levels, but courageous reductions by the Administration and the Congress in other federal expenditure programs should hold the increase to about 5% in fiscal year 1975-1976. Of course, in the kind of critical economic climate I've described, we must expect a fall-off in federal corporate and personal tax receipts. Therefore, I consider it unwise to become firmly committed to a balanced budget at this time.

I would like to emphasize one problem of overriding importance that must have early attention. In the last year we have experienced the results of the effective emergence of an energy cartel among the third world oil producing countries (OPEC) which has restricted the supply of crude oil and raised costs of all forms of energy to

unprecedented levels in the industrialized nations. Other raw material supplying nations with similar leverage are endeavoring to follow the OPEC example.

The situation is now at the crisis point, not only in the United States but throughout the world. It requires rigorous, significant and concentrated measures to correct. The alternative to stern, disciplined and cooperative action by the oil-consuming nations now is world-wide economic catastrophe of unprecedented proportions.

The problem is world-wide, encompassing developed and under-developed nations alike, because of the interdependency that has developed between nations as both sources of materials and markets for goods. Hence, a single nation's efforts to resolve the problem will not be effective.

In my opinion these conditions call for direct Government-to-Government negotiations. No one private U. S. petroleum company can handle the problem, particularly since the corporations doing business differ from country to country, and our anti-trust laws prohibit the petroleum companies from acting in concert. We need a much more effective organization of United States Government efforts to conduct Government-to-Government negotiations on a continuing basis to obtain price reductions and adequate supplies

and to manage the monetary consequences of the rapid shift of the world's wealth from the industrialized countries to a comparatively few oil-producing nations. Also, our Federal Government must [illegible] the nation's energy conservation programs and must subsidize a large part of our national program for expanding coal and nuclear power activities to become less dependent on foreign crude oil by 1980.

As part of that energy conservation effort, the President should ask Congress to ease the intolerable financial burden of the anti-pollution programs, especially since there is a shortage of capital now and for the next five years when present laws hit hardest. Consideration should also be given to allowing pollution control expenditures to be tax deductible in this period of capital shortages, and thus ease the capital burden on corporations and municipalities.

In summary, in my opinion we're rapidly approaching an economic crisis of unprecedented proportions. All elements of our society will need the cooperation, understanding and help of the executive and legislative officials of our Federal Government in order to pass through the crisis period reasonably well and in a reasonable time. Even with that help, my personal opinion is that we will never again return to the "normalcy" we knew in earlier periods because the continuing and growing energy problems will make that impossible.

Nevertheless, we owe it to ourselves and succeeding generations and to people all over the world to manage our problems and opportunities as best we can, even in a rapidly changing and worsening economic environment.

INFLATION

ITS EFFECTS ON SMALL BUSINESS MANUFACTURERS, AND SOME SUGGESTIONS FOR CORRECTION OF THE PROBLEM.

By: Charles F. Conrad,
President,
THERMOTRON CORPORATION
Holland, Michigan

THERMOTRON
CORPORATION
ENVIRONMENTAL CHAMBERS & TESTING EQUIPMENT

September 17, 1974

Mr. Frederick B. Dent,
Secretary of Commerce,
U.S. Department of Commerce,
Washington, D.C. 20230

Dear Secretary Dent:

Thank you for the invitation to participate in the Commerce Department Conference on Inflation at the Detroit Hilton Hotel on September 19th.

I am pleased to accept the invitation, and I am willing to serve on the panel as a spokesman on behalf of small business.

Enclosed is my written statement for inclusion in the final proceedings of the Conference. I sincerely hope that you and President Ford may find some information or ideas of benefit.

Best wishes to both of you for success in combating the serious inflation problem.

Respectfully,

Charles F. Conrad,
President,
THERMOTRON CORPORATION

CFC/ms
enc.

cc: President Gerald Ford
cc: Senator Robert Griffin
cc: Senator Philip Hart
cc: Rep. Guy Vander Jagt

HOLLAND, MICHIGAN 49423, U.S.A. PH. (616) 392-1492 TWX (810) 292-6164
THERMOTRON

THERMOTRON
CORPORATION
ENVIRONMENTAL CHAMBERS & TESTING EQUIPMENT

September 19, 1974

POSITION PAPER

(For Inclusion with Final Proceedings of Economic Conference on Inflation).

ATTENTION: Mr. Frederick B. Dent,
Secretary of Commerce,

Mr. Alan Greenspan,
Chairman of the President's Council
of Economic Advisors,

SUBJECT: INFLATION --
ITS EFFECTS ON SMALL BUSINESS MANUFACTURERS,
& SOME SUGGESTIONS FOR CORRECTION OF THE PROBLEM.

SUBMITTED
BY: Charles F. Conrad, President,
Thermotron Corporation,
338 West 12th Street,
Holland, Michigan 49423,

ENVIRONMENTAL EQUIPMENT

THERMOTRON CORPORATION
KOLLEN PARK DRIVE
HOLLAND, MICHIGAN 49423

CHARLES F. CONRAD
PRESIDENT

PHONE 616-392-1492

THERMOTRON

INFLATION

ITS EFFECTS ON SMALL BUSINESS MANUFACTURERS, AND SOME SUGGESTIONS FOR CORRECTION OF THE PROBLEM

The basic cause of inflation is the fault of the Congress of the United States currently and during most years since the 1930s. Each year, with few exceptions, the United States expenditures have exceeded income. Obligations, therefore, could not be paid with hard currency, gold or silver, anymore. Payments are made with notes and borrowed dollars to the extent that more than 10% of the budget goes for interest. The Congress has traditionally voted more give-away programs than we can afford. This applies at home and overseas. There is no way that the United States can pay its debts except with devaluated dollars, which only result from inflation.

Thermotron Corporation employs about one hundred forty people and does approximately $4,000,000 per year business. During the last twelve months the amount of dollars paid for interest was double the year before. Our employees needed increases in pay in an attempt to balance the losses caused by inflation. Materials cost went up from 10% to 40%. During the same time it was not possible to raise selling prices for our products to offset our increased business cost. As a result, a marginal business that struggled to just make it into the black in earlier years, experienced a serious loss on last year's sales even though total business volume gained approximately $1,000,000.

The government theory that high interest rates will stifle loans and that the tight money policy will prevent businesses from firing up the inflation is, in my opinion, almost totally incorrect. The present rates that marginal businesses must pay for money, ranges from 14% to 18%. This practically assures that the Company will have no earnings if it does a volume of business. It removes most of the incentive for being in business, which in turn can reduce employment, reduce the number of products available, and for a short period of time at least, will cause the selling price of available products to be high because of demand. If this continues it will only be a year and a half until enough small businesses reduce output or fail (and we make up 80% of all businesses).

THERMOTRON

When that happens there will not be much demand for products, because people will not have the money to buy them. There will be a collapse of prices and business, a skyrocketing cost of welfare and Government-sponsored jobs, a great reduction in the tax in-take by the Government, and in spite of policies of tight money, loose money, interest rate change, etc., by then it will be too late, and a classic 1930s style depression could follow. That is one cure for inflation that none of us want. It was a cure for the inflation of the 1920s and directly an agonizing one, which I remember.

I believe that these Economic Anti-Inflation Study Conferences are dominated by Presidents and Executive Officers of extremely large businesses. No doubt, their problems are similar, but usually they have more reserves, more banking leverage and political clout to deal with them.

The small manufacturing businessman, such as I am representing, has very little control of his destiny at this time. The banks are arbitrary about what they must have for their money. Loans are only being made to small businesses that do not appear to be much of a risk. Interest rates are 14% to 18% for short-term loans when available. I believe that lowering of the interest rates is necessary in order to stimulate business to manufacture a sufficient quantity of goods that will allow the American free enterprise system to function. The availability of goods for immediate delivery is one of the factors which will lower prices and reduce inflation. Everyone must plug in interest costs, increased labor costs and other increased material costs into today's prices.

Along with a lowering of the bank interest rates, it follows that interest on savings and other deposits would have to be lowered proportionately. Either that or everything must be frozen at its present level for an extended period of time, such as five years. During that time there will be limited maneuvering to have the whole economy on a new plateau in which ratios of costs to the selling price are in a similar percentage to that which they were during more stable times. This would be much like a stock split. It amounts to a dollar split, where one share of stock has been split into four; today we have seen a dollar split into four, and then each dollar becoming worth about 25 cents.

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I have no objection to everything requiring four times as many dollars or ten times as many dollars if that's what it takes to wipe out the national debt and get on a new sound basis with Congress having the nerve to operate with a balanced budget. I'm sure people and businesses will be hurt during such a reshuffle. People and businesses are being hurt today and will be hurt more so if we continue the wild inflation patterns so strongly established during the past twelve months.

The United States will be condemned for paying off other countries and obligations with suddenly "worthless dollars". It is a process that has been going on steadily during the past thirty years. The only difference is that the rate of dollar devaluation has been rather steady until now.

The only solution for this country will be that all branches of government operate with a balanced budget and that individual states, cities, counties and townships do the same. The federal government can continue to print and distribute dollars worth only the paper they are written on and what people are willing to give in exchange. There must be a good balance, and it can only result from a government operating on a sound black ink rather than red ink figure. That is no different than applies to any business, large or small, or to the business of individual families who have the same obligation to live within the available means.

If foreign governments do not want our dollars as payment for what we owe them, I would say, "Fine, then pick and choose any materials, products or machinery available from the United States at fair market value and credit our account accordingly". In this manner our obligations can be met by merchandise and goods produced by our people. That would be much better than paying off with our practically non-existent gold or silver or with practically worthless paper dollars.

The dollar value within the United States boundaries can be based upon what we want it to be worth and what we say it is worth and what it will buy within our country. This is done in many other countries. In those countries their dollars or medium of exchange is worthless in other countries, but their goods, grown or manufactured, can be used to pay off obligations.

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In conclusion, inflation is directly the cause of squandered national resources by governmental action overseas and by many years of Congressional refusal to operate this government on a balanced budget basis. In self-defense all of the United States citizens and private enterprise businesses continue the spiral of higher wages, higher prices, higher interest, etc., which aggravates the inflation.

Practically 95% of the American people want to work and want to earn their own way. They really don't appreciate a hand-out. Most American free enterprise operations are only asking for good business opportunities in a competitive marketplace. The result will be anti-inflation and increased income for the government to pay its bills within a balanced budget situation.

Respectfully submitted,

Charles F. Conrad

Charles F. Conrad,
President,
THERMOTRON CORPORATION

CFC/ms

cc: President Gerald Ford
cc: Senator Robert Griffin
cc: Senator Philip Hart
cc: Rep. Guy Vander Jagt

U.S.A.

ARIZONA
R. A. Mayes Company
1445 E. Thomas
Phoenix, Arizona 85014
Phone: (602) 279-5243

CALIFORNIA
Thermotron Corporation
8934 Mason Avenue
Chatsworth, California 91311
Phone: (213) 882-5030

COLORADO
R. A. Mayes Company
8 Garden Office Center
Broomfield, Colorado 80020
Phone: (303) 466-6311

FLORIDA
Newco & Associates
2227 Seely Drive
Orlando, Florida 32808
Phone: (305) 293-7700

ILLINOIS
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540 West Frontage Road
Northfield, Illinois 60093
Phone: (312) 466-9085

INDIANA
Torkelson Associates, Inc.
3512 Rockville Road
Indianapolis, Indiana 46222
Phone: (317) 244-7867

MICHIGAN
Thermotron Corporation
24001 Southfield Rd.
Suite 106
Southfield, Michigan 48075
Phone: (313) 356-5010

MINNESOTA
Torkelson Associates, Inc
4940 Viking Drive
Minneapolis, Minnesota 55435
Phone: (612) 835-2414

MISSOURI
Adelphi, Inc.
12015 Manchester, Suite 165
St. Louis, Missouri 63131
Phone: (314) 821-1232

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R. A. Mayes Company
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Phone: (713) 466-8325

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Phone: (416) 742-7122

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Warburton Franki Industries
(Sydney) Pty. Ltd.
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Sydney, Australia
Phone: Auburn 648-1711

INDIA

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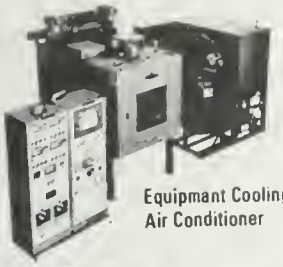
Kita-ku
Oska, Japan

SWEDEN

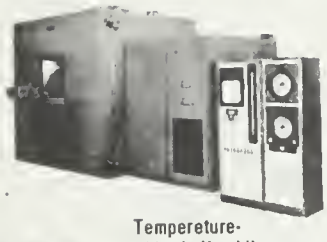
Robert E. Olsson AB
Box 165
S-591 01
Motala, Sweden

THERMOTRON
CORPORATION

Main Plant
Kollen Park Drive
Holland, Michigan 49423

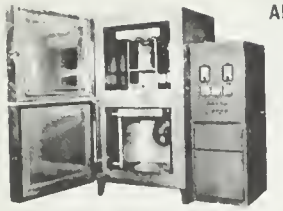


Equipmant Cooling Air Conditioner

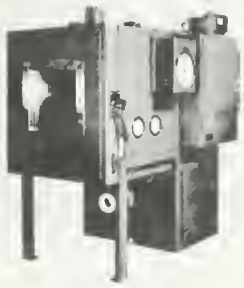


Tempereture-Altitude-Humidity

Hi-Lo Tempereture



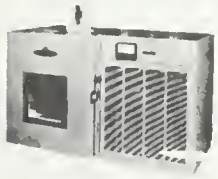
Thermo Shock Chembar



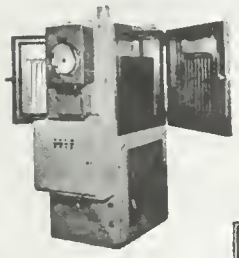
Temperature-Vibration

Thermo Cycle Chamber

AGREE Reliability

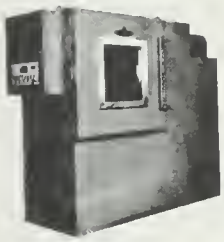


4-Cubic Foot Bench Mount Temperature Unit.

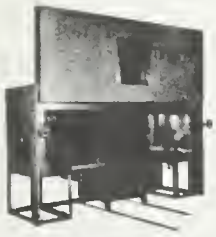


4-Cubic Foot Altituda-Tempereture

Temperature-Altitude



Rein-Sunshine



Reliability Demonstretion Tampereture-Vibration

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Temperature-Altitude (Portable)

Walk-In Temperature-Humidity

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urgent reliability demonstration program?
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WORLD HEADQUARTERS

THERMOTRON
CORPORATION

KOLLEN PARK DR., HOLLAND, MICH. 49423
PH: (616) 392-1492

Detroit:
24001 Southfield Rd., Suite 106
Southfield, Michigan 48705
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In recognition for being nominated as national small subcontractor of the year and for oustanding contribution and service to the nation's needs.

REGIONAL DIRECTOR

March 8, 1974

19 September 1974

The Honorable Fredrick B. Dent
U. S. Commerce Secretary
Washington, D. C.

Dear Sir:

I read with avid enthusiasm the efforts of the President's committee to reduce runaway inflation. Although there has been some honest opinions and suggestions, I get the feeling that the majority to date although appearing sincere, would not if invoked, alter either the life style or business enterprises of those who offered them.

I refer in particular to the Tuesday newspaper account of the meeting of forty business leaders which you called together in the 5th of the twelve regional meetings prior to the summit conference on inflation.

The first suggestion, to balance the budget and reduce government spending, and improve productivity sound good but let us take them one at a time (they are all big enough) and see what they look like.

Balanced Budget: History does not bear out the fact that a balanced budget has an effect on reducing inflation. There has been a balanced budget several times over the last fifteen years, (there was a recent newspaper article on this) yet inflation today is literally consuming the country.

Reduce Government Spending: When? This fiscal year, we are already committed, next fiscal year, we are already programmed, fiscal year 1976, maybe. Can we wait that long? I think not.

Improve Productivity: Of what? Gadgets we didn't know we needed or wanted until the advertisements programmed us. Larger aircraft to replace the smaller ones which we can't keep filled. Inefficient automobiles which gobble fuel, expensive, energy hungry appliances, on which you must purchase a service and repair contract to be sure of receiving a year of satisfactory operation. Grocery stores that are jammed packed with every gadget ever thought of and some I think that wasn't, spray cans, thousands of spray cans (regular, new, new improved, giant and supper, super giant, etc), and the same product. Do we need them, really need them? Ecology wise are they safe? Cat food, dog food, isles full, hundreds of different kinds, a total excess, wasted energy to prepare, transport and merchandise, wasted raw material for packaging. Talk about human birth control, that's good too, but what we really need is animal control. A $100 per year per animal, registration fee should do it. Yes including cats. No I don't think we need improved production unless the improvement is in quality and simplicity. Every item a manufacturer produces should be produced as though it were going to be rented to the public instead of for sale to the public. I wager you would see a great improvement in quality control and I doubt seriously if you would see a model change each year.

Consumers to, I think, would abide by a tightening of credit. Some no doubt would scream at the beginning, scream because of the change, not because of the hurt. Kinda like a fat man on a new diet, he feels a little empty and let down, but he knows it's the best thing for him. I remember well when it was a virtue to be able to pay cash for an item, and by so doing there usually was a corresponding discount on the initial sales price. One third down was a requisite for obtaining financing for a credit purchase. What happened to these tried and true rules? The consumers didn't change them. Producers and manufacturers with new innovations and a glut of goods, banks and lending institutions with an oversupply of money and loose State and Federal fiscal policies did. We, the consumers in the final analysis though made it all possible. We took the bait - how we took the bait. We learned to buy before we wanted, to spend before we earned, to discard rather than repair and literally to assume we had a secure future rather than planning, working and saving for one. We totally tuned out our elders who remembered the ravages of the last depression and a few other economist who tried to warn us along the way. We commenced an uncontrolled spending spree, feeding upon its own wake, as it were, and which we are just now coming to realize can devour all of us. How many of us, business included, in true privacy, has compared our true net worth, if we had to liquidate, to our outstanding obligations? Sad an't it? Yes, I think it is time we considered returning to the cash price basis with a corresponding discount, and the 1/3 down, (except housing needs) for credit purchases.

History shows that bailing out the failing banks and institutions of foreign countries did not in the least abate the path of the last depression. True the United States was the last to fall, but I doubt the landing was any softer. I suggest we not repeat those mistakes again.

Federal funds returned to the states and cities, I think by and large is a farce. I suggest that many structures and ambition projects are not necessary, are not fully used, will never be fully appreciated, and but for the easily obtained federal funds would not even have been thought of. I submit that if the program continues the guage for which it is to be expended should be tightened. States and cities requesting federal funds for special projects should at least equal the amount of federal funds they are requesting. A reduction in available federal funds would automatically reduce this type of expenditure. The way I understand the revenue sharing plan and the special projects funding plan, it was to reduce taxes at the local level. I often wonder what a survey of the local tax structure would reveal? Based on an equal number of years before and after the revenue sharing plan it should be lower. I wager you want find it so.

Pricing of goods in the market place too, especially food, should be equated to a nominal markup and not priced in accordance with what the buying public will stand. Quantity in sales should be the guideline for net profit. It is becoming harder and harder though to reconcile quality or quantity with price. Things like beans, tripling or quadrupling in price in the last year or year and a half. Dry beans at that. Pork and beans too, 10¢ to 33¢ today, margarine 20-30¢, 69-75¢ today. How come? I think not because the price of production, transportation, and merchandising has increased that much, but because these items are a substitute for meat. What do we substitute for the substitute? How long will it be before we make thieves out of the poor, especially the elderly poor? I don't know the answer, but find an answer we must and soon. For those on the President's summit council who have not done so,

I suggest they spend an hour in the supermarkets of our country, observe the pickups and putbacks of those trying desperately to give their loved ones enough to eat. I doubt that a balanced diet has much meaning even at this stage.

Moderating the government's restrictive monetary policy was also mentioned as a stop-gap inflation measure. What does this mean? Do we open the flood gates in order to allow an already over-extended business community to further mire its self in short time borrowing at premium interest rates for doubtful expansions? What about the consumer? Are we to further burden the over-extended consumer to buy the increased production which the business community has produced by its expansions? At what point in time will we balance the scales? How soon, will it be before the consumer can no longer meet the installments on price increases which are continually passed on? Every thinking person should shudder at the domino effect whey they fail to do so. Every manufacturer and producer of goods, I think would be prudent to R&D ways and means to furnish a quality product at the present or reduced price, (some have started doing this) and just hold the status quo on production. I ask myself, and I am sure others have, do we actually have a shortage of anything other than energy, and is it not so that misguided production goals, producting fancy, unsafe, inefficient goods and machines are part of the cause of our present shortage? Conglomerates, I think, are partly responsible for the loose quality control of our products. Know how, personal pride, and on the scene supervision has been surplanted by computers, time study analysis, and sterile office buildings thousands of miles from the source of the product. The workers' skilled hands do not perform as well, as quickly, as eagerly as they did when the boss was the boss. He could praise, raise, hire and fire without a clearance from the headquarters office. There was a time when merit was the basis for a raise. Whatever happened to that time tried formula? Bank holding companies too, although I do not understand their makeup, scare the hell out of me and from some of my friends which I have talked to. The holding companies along with the bank charge account card, I think has done more to undermine sound banking principles and fiscal responsibility than the shady land deals and the Pyramid Club Enterprises.

Getting back again to balancing the budget, if we attempt this let us use all the figures which causes the national budget to be in the red. The national debt for instance should definitely be included. How can a budget be balanced when our national debt, now monstrous, and growing every year is not included in the figures? The people are looking for solutions, not some accountant playing checkers with our tax dollars. They are looking, or I should say praying, for leadership too, and would support a program of fiscal responsibility, with hardships, if they felt it had a chance of succeeding. I venture to hazard that a tax accessment of 5% to 7% poverty level salaries excluded to start paying off the national debt would be acceptable to the people. The repayment would be slow enough so that it would not wreck the fiscal stability of our lending institutions and might even give the stock market a needed kick in the tail. People could understand and relate to a program of this kind because they could look forward to that day in the future when our country could be debt free. A spin-off effect, of course would be, that as the debt decreased, actual spendable government revenue would increase. In a time of ever climbing interest rates (I believe I read where we had to borrow 2.2 billion this week for payment of interest on the national debt) the savings to our government, in the long run would far outstrip actual

current dollars saved. Twenty-five or is it thirty per cent of our tax dollars to pay the interest on the national debt. I ask you is that fiscal responsibility?

I feel that a timely warning, one time only, should be given to our wholesalers and retailers that price gouging would not be allowed. If discovered and proved a national black list should suffice for an immediate cure. Consumers would be your watchdogs. I think a few tough examples would cause those that followed to increase price only where quality or scarcity was justified. A real scarcity not an induced one.

One last afterthought, our president is considering hiring the unemployed for public service jobs. Has anyone considered reopening our gold mines? It seems I read somewhere that there were thousands closed, not because they had stopped producing, but because the controlled price of gold had made them unprofitable. What a headling that would make. A subsidy that has a chance of breaking even, unheard of.

In conclusion, in case you have read this far, I sincerely thank you. I wish I could put my thoughts together more concisely, but as a person who doubts the real necessity for a stock market, and who believes that activity does not necessarily begat progress, this is the best I can do.

Sincerely yours,

Travis L. Curry
312 Beacon Hill Court
Norfolk, Virginia 23502

cc: Senator Harry Byrd
Congressman William Whitehurst

AMERICAN TEXTILE MANUFACTURERS INSTITUTE,

CHARLOTTE
WASHINGTON
NEW YORK

MORTON H. DARMAN, PR
C/O THE TOP COMPA
470 ATLANTIC AVEN
BOSTON, MASS. 02
TELEPHONE (617) 482-44

September 19, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
United States Department of Commerce
Washington, D. C.

Dear Mr. Secretary:

Enclosed is additional material with respect to tax incentives that I respectfully request be included as a part of the official record in connection with my statement at the September 16 Conference on Inflation held at Pittsburgh, Pennsylvania.

It was a pleasure to participate in that important session.

Respectfully,

Morton H. Darman
President

Enclosure

September 19, 1974

SUPPLEMENT TO STATEMENT OF MORTON H. DARMAN

CONFERENCE ON INFLATION
PITTSBURGH, PENNSYLVANIA

re: Tax Incentives Needed to Help Combat Inflation

The textile industry of the United States, one of the largest employers in the manufacturing sector, must continue to invest heavily in plant and equipment as well as in increased working capital to finance inflated receivables and inventory in order to remain viable. The industry faces these rapidly growing capital needs at a time when outside sources of capital are either non-existent or prohibitively costly. The equity capital market, of course, is for all practical purposes closed to the textile industry. At present, many textile stocks are selling below or near the level of their working capital less long-term debt, far below their net book values. The gap today is so wide that equity financing in the textile industry is out of the question in the foreseeable future.

Much of the same can be said for outside loans. When available, such loans carry interest rates which are at an all-time high. Moreover, textile companies' securities, with possibly one or two exceptions, carry a bond rating of not better than BAA or BBB. As a consequence, their debt issues are obviousl not attractive to the investing public.

A brief review of the working capital and capital equipment needs of the textile industry will emphasize the extremely serious nature of its financing problems. To begin with, the industry by its very nature requires large sums of working capital to carry inventories and accounts receivable.

For a fully integrated weaving operation, for example, from 25 cents to 35 cents of working capital is required for each dollar of sales. The sharply increasing inflation is requiring an ever-increasing amount of money for working capital in the industry to turn out the same number of units of production. A rough rule of thumb in our industry is that over the long run capital expenditures should be financed from funds generated from within, with long-term senior debt, when needed, to be used for working capital requirements. Unfortunately, inflated working capital needs and low after-tax profits in the industry in recent years have forced much of the funds generated from within to be locked up in additional working capital rather than being used for essential capital investments to modernize and expand the productive facilities of the industry.

As for capital goods expenditures, the cost of textile plant and equipment replacements for equivalent production currently runs from two to four times the cost of the items being replaced. Thus, in 1960 a fully-equipped carding machine for use in the manufacture of yarn sold at around $9,000, whereas today the same carding machine is at the $30,000 level. Similar examples can be given for other major items of equipment in the industry, such as looms, knittin machines, etc. As is obvious, the additional investment required just to maintain the current level of production in the textile industry is burdensomely heavy.

Add to this investment in new equipment made necessary because of technological changes and shifts in market demands, and one can easily appreciat the critical capital shortage the industry faces in replacing and expanding its productive facilities.

This is only part of the story, however. Hundreds of millions of dollars must be invested by the industry during the next few years in equipment to compl

with air, water, and noise pollution regulations. The Environmental Protection Agency has established water pollution standards which must be implemented by the textile industry by 1977 and it has recently published proposed standards which the industry must meet by 1983. In its analysis of the economic impact of compliance with the 1977 standards, EPA estimates that for the six years 1968-1973, inclusive, the textile industry had required capital expenditures for water pollution abatement of almost $211,000,000, expressed in 1967 dollars. Ballooned up to today's inflationary levels, the price tag is in the neighborhoo of $350,000,000. For the three years 1974-1976, inclusive, EPA has estimated expenditures by the industry of $141,400,000 (in 1967 dollars), or about $235,000,000 in 1974 dollars.

At present EPA estimates that the cost of meeting the 1983 effluent standards, if indeed it is possible to do so, will be considerably more than the cost of meeting the 1977 goals.

As for noise abatement, the textile industry has invested heavily, and will continue to invest heavily, to reduce existing noise levels to meet Federal standards. Present estimates are that the industry will have to expend approximately $366,000,000 for each of the years 1975, 1976, and 1977 just to meet the interim 90 dBA standard. If the permissible noise level were reduced from the interim standard of 90 dBA to 85 dBA, and if the technology were available, industry expenditures well in excess of $300,000,000 a year for at least the next seven years would be required.

Occupational exposure to cotton dust in the industry is another problem requiring the expenditure of substantial amounts in the near future. Present indications are that the industry will have to spend an average of approximately $104,000,000 a year in each of the three years 1975-1977, inclusive, in an

attempt to meet OSHA standards with respect to cotton dust. Other requirements of OSHA regarding safeguarding work areas (machine guards, stairways, lighting, and so on) are likewise putting a drain on capital funds.

The most recent estimate is that the industry has been forced to divert at least 13 percent of its annual capital spending into air, water, and noise abatement facilities and that this figure will increase to at least 20 percent within three years. These investments in environmental protection facilities will not increase the industry's productive capacity at all and they take dollar away from plant modernization and expansion at a time when our nation needs more productivity to combat inflation.

It is in this general context that we continue to press for a tax environment in this country which is conducive to modernization and expansion of plant and equipment.

Our specific proposals are as follows:

1. The investment tax credit should be increased from 7 percent to 10 percent. Even with the benefit of the current investment credit and ADR, the United States lags far behind all of our major industrial competitors in regard to capital cost recovery allowances. The added investment burdens facing the textile industry, as well as industry generally, in this country certainly justify the recommended increase of the investment credit to a 10 percent level.
2. The 20 percent shorter lives for machinery and equipment authorized by ADR should be changed to 40 percent, as recommended by the President's Task Force on Business Taxation in 1970. Rapid technological changes, inflation, and competition from other industrialized nations make it imperative that the United States further encourage

through our tax laws continued and increasing investment by industry in this country in the most modern production facilities. The recovery of costs at a faster rate, of course, does not increase the taxpayer's total deductions; instead, it merely allows the same deductions over a shorter period of time.

The cost recovery period assigned to factory buildings under ADR should not exceed 27 years, and the tax write-off should be permitted under one or more of the accelerated methods. Modern industrial plants represent an ever-increasing portion of investment in productiv facilities. In the textile industry, for example, the building components of a modern finishing plant may easily exceed 30 percent of the total cost of plant and equipment. The United States lags far behind major competitors abroad in its capital cost recovery allowances for industrial buildings. Full depreciation recapture would preclude any abuse of the adoption of this proposal.

4. The cost recovery provisions relating to anti-pollution facilities need substantial liberalization. Our porposals in this area include allowance of the investment credit, simplification and liberalization of the present five-year amortization rules, and elimination of the rapid amortization provisions as a preference item under the minimum tax provisions of the Code.

Capital Cost Recovery Allowances for Machinery and Equipment

The combination of a seven percent investment credit and the shortening of depreciable lives under the ADR system for machinery and equipment should be viewed as minimum first steps toward bringing this nation's capital cost recovery allowances up to levels more nearly comparable to those granted by

other major industrialized countries. Much more needs to be done. This is particularly true so long as we must live in an atmosphere of inflation which constantly erodes the replacement value of our cost recovery allowances. We therefore urge an increase of the credit to 10 percent and a further downward revision of the ADR capital cost recovery periods for machinery and equipment to permit a 40 percent leeway from the old guideline lives. We further recommen that such shorter cost recovery periods not be subject to later upward adjustmen by the Secretary of the Treasury, as is now permitted under the ADR system.

Capital Cost Recovery Allowances
for Industrial Buildings

Primarily because of concern that real estate investments frequently fall into the tax shelter area for high income individuals, the Congress in 1969 prohibited the use of the double declining balance or sum of the years digits methods in writing-off the cost of buildings. It also provided that the excess of accelerated depreciation over straight-line for buildings should be treated as a preference item for both individuals and corporations.

We remain strongly opposed to these changes in the law as they apply to the detriment of investment in modern plants by industrial corporations in this country. Specifically, we urge that the accelerated depreciation method be made fully applicable to factory buildings and other structures owned and used in manufacturing operations by bona fide industrial corporations. Further, we believe industrial corporations should not be subject to the minimum tax on preference items at all, since it only has application when an industrial concern is in financial trouble. In the alternative, the excess of accelerated depreciation over straight-line on industrial buildings held by bona fide industrial corporations should not be treated as a preference item.

The present restrictive rules with respect to the recovery of costs of industrial buildings are contributing to the competitive disadvantage American industry faces in competing with the economies of Western Europe, Canada, and Japan, where much more generous tax provisions prevail for recovery of capital invested in industrial buildings.

The 1962 depreciation guidelines provided a class life for industrial buildings (including the building shell, and all components such as heating, plumbing, electrical wiring, air conditioning, elevators, etc.) of 45 years. This lengthy cost recovery period for factory buildings has been established as the shortest life that can be claimed for industrial plants under ADR, subject to a special three-year transition rule during which the Office of Industrial Economics of the Internal Revenue Service is to study whether a different class life should be assigned industrial buildings. In any event, at present under ADR the cost of factory buildings in this country must be recovered over 45 years at a maximum straight-line rate of 2.2 percent or, under the 150 percent declining method, at a maximum rate of 3.3 percent.

In contrast, by way of example, West Germany permits its factory buildings to be written-off over approximately 29 years using a double declining balance rate of 7 percent. France uses a cost recovery period of 20 years, Italy provides for a 22 year cost recovery, and the United Kingdom 25 years. However, these shorter cost recovery periods aborad for industrial facilities are only the top ot the iceberg. Italy, the United Kingdom, Japan, and Sweden apply their building write-off rules only to the structural shell of the building, allowing much faster cost recovery for the facilities providing for heating, plumbing, air-conditioning, and power requirements, components which must be treated as part of the building under the more restrictive U. S. rules.

France provides special accelerated depreciation of 25 percent of the cost of new buildings used for industrial and commercial activities which have been approved by the Ministry of Economics and Finance. Italy provides for accelerated depreciation on 40 percent of the cost of new buildings, limited to 15 percent in any single year. Japan permits new fireproof buildings to be depreciated at rates twice as fast as the regular rates. The United Kingdom provides an initial allowance of 40 percent for new factory buildings. In addition, the U. K. provides cash grants up to 40 percent of the cost of industrial buildings constructed in development regions. Canada provides incentive grants up to 35 percent of the cost of a new plant plus $2,000 to $7,000 per new job created.

We could go on and on, but the above indicates how very far the United States has fallen behind the rest of the world in encouraging the construction of new industrial plants through allowance of more rapid cost recovery for tax purposes.

We believe, in view of our worsening trade position, that Congress, in addition to acting promptly on trade legislation, should give early consideratio to bringing the cost recovery provisions of our tax laws applicable to industria buildings into closer equivalence to those which apply to our major foreign competitors. As an initial step, we recommend reinstatement of the accelerated depreciation methods and a 40 percent reduction of the 45 year class life presently assigned factory buildings under the ADR system.

Capital Cost Recovery for
Pollution Abatement Facilities

Proponents of the repeal of investment credit and ADR refer to the combination of the two as an "overkill" to encourage investment in productive

facilities in this country. While we obviously disagree with this conclusion, and recommend the adoption of shorter cost recovery periods for both industrial plant and equipment, it is quite clear that there is a very substantial "underkill" in our tax treatment of investment in pollution control facilities.

Our present five-year amortization provisions are not being used because the combination of investment credit and ADR is considerably more advantageous than a five-year amortization for such facilities with the restrictions imposed by present section 169 of the Code.

First of all, this provision should be simplified and liberalized by eliminating the 15-year rule in determining the amortizable base and by doing away with the present disqualifying feature of the law which discourages modernization or expansion of existing plants serviced by pollution abatement facilities eligible for rapid amortization.

Second, and even more important, the present rule that pollution control facilities receiving five-year write-offs are not eligible for investment credit should be changed to specifically authorize the credit.

Expenditures for pollution control in the textile industry, as for all industry, do not increase productivity. They are additional costs which must be incurred to protect our environment. But the investments required in this area are obviously enormous. We believe that the nation, through the tax system, should bear a reasonable portion of these additional costs, and that the special tax treatment for pollution abatement facilities should not be limited to those servicing industrial plants in existence prior to 1969.

Finally, we recommend prompt repeal of the present statutory requirement that five-year amortization of pollution control facilities be considered a tax preference item.

Business and Manufacturing
Conference on Inflation
Pittsburgh, Pennsylvania
September 16, 1974

STATEMENT OF
JOHN D. deBUTTS,
CHAIRMAN OF THE BOARD,
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Mr. Secretary, we in the telephone business are more accustomed to reminding than being reminded that "your three minutes are up." Nonetheless I do appreciate the opportunity to make a brief statement.

I shall address myself principally to two modes of attack that seem to me crucial to the success of our country's battle against its twin economic foes, inflation and stagnation. The first calls for government action to encourage capital formation, the second for renewed business and labor initiative to enhance productivity.

Capital Formation

The urgency of action to encourage capital formation has been dramatized by the President of the New York Stock Exchange in his forecast of a $650 billion "capital gap" - or shortfall in savings to meet investment requirements - over the next 10 years.

But we don't have 10 years to close that gap. The problem is an immediate one. Particularly is it so for the utilities - the power companies, the telephone companies, Bell and independent, that with transportation comprise the infrastructure of our economy. If the utilities don't grow, the rest of the economy can't. Telephone companies, large and small, must act now to assure that - two years hence, five years hence - the plant will be in place to supply the essential services we are required by law to provide. We cannot "wait out" today's high capital costs.

Inflation affects utilities more severely than it does most other industries. The $10 billion the Bell System is spending for new construction this year would have cost us but a little more than $6 billion 10 years ago. And we must go into the market for these dollars in a period of intense competition for capital that has pushed interest costs for AAA securities above the 10 per cent level.

What seems to me most urgent is that the Administration and the Congress address themselves now to permanent measures that will encourage investors to invest and enhance industry's ability to attract and generate the capital it needs to build the production capacity that is needed to bring supply more in line with demand.

More specifically, investors would be encouraged to invest if tax rates and holding periods on capital gains and losses were liberalized. And investors would be encouraged to invest, I believe, were some sort of "roll-over" provision enacted that would allow investors - as we do with the sale and purchase of residences - to defer payment of taxes on the gain from a sale of capital securities if the proceeds are reinvested within a relatively short period. Also, it appears to me that exempting reinvested share owner dividends from taxes would provide a powerful incentive toward increased capital formation, at the same time providing a strong signal that public policy favors broad base of individual participation in the ownership of enterprise.

I also urge attention to measures that would permit industry to meet more of its capital requirements from internal sources. Specifically, permitting utilities to apply the investment tax credit at the same level applicable to other industries would facilitate more rapid translation of new technology into service to the public. So, too, would measures to assure the adequacy of depreciation rates. In this connection, proposals to eliminate the Asset Depreciation Range system (ADR) seem to me precisely the wrong way to go. Rather does it seem to me that application of ADR to a wider range of capital assets would be appropriate.

Finally on this point, a fundamental: what most encourages investors to invest is the prospect of profit. Business cannot meet its obligation to modernize and grow and create jobs - nor utilities fulfill their obligation to serve - unless that expectation is met. Regulation that thwarts that expectation - or failure of the public to recognize that adequate profits serve consumers as well as investors - will exacerbate the very ills we are gathered here to combat.

Productivity

Mr. Secretary, the opportunity you have provided us to participate in these macroeconomic deliberations is a welcome one. It should not, however, distract us from those humbler microeconomic tasks we know best and that, if we do them well, will contribute more to stemming inflation than any of the proposals as to what government can do that may arise in the course of these meetings. It's time, I think, for all of us to do a better job of minding our own businesses, explicitly addressing our energies to the only way the real income of Americans can be improved and that is through increased productivity. We say that - we believe it - but it seems to me that insufficient attention has been paid to dramatizing this fact to the American people.

Productivity improvements don't just happen; they are made to happen. They have been made to happen in my own business - in large measure as a consequence of very large capital investments that enable us to apply advanced technology to our plant. Today we are handling a volume of business 28 per cent higher than we did three years ago with zero increase in employees. But not all of that productivity improvement cost capital dollars. A goodly portion of it came from improved operating methods, improved organization, improved incentives - in short, by "working smarter." In this connection, while I recognize that we have scrupulously avoided the suggestion that there might be some merit in "working harder," I can't help but wonder what is really so wrong about that - including working harder at the job of management.

Conclusion

A final observation, Mr. Secretary.

As chairman of the U.S. Industrial Payroll Savings Committee I cannot neglect this opportunity to cite the role of Savings Bonds in the fight against inflation. As I hear the economists, one way to ease inflation is to ease demand and one way to ease demand is to divert income that is being currently spent for consumption into savings and - eventually - into investment in more productive facilities. What better way to do that than through Savings Bonds? What better way to enlist the entire working force of the United States in the war against inflation than a direct appeal from our President that in effect says, if you'll do your part by investing in Savings Bonds some small portion of what you spend each week for consumption, we in government will exercise every means we know to preserve the value of your savings - and together we'll bring this monster to its knees.

Thank you very much.

E. M. [illegible] Windt
Summit Conference - September 16, 1974
Pittsburgh, Pa.

It seems evident that the control of inflation must begin with restraint in government spending. Therefore, I will assume without comment that every means possible will be used to restrain all discretionary government expenditures, at all levels of government, and that every effort will be made to operate within a balanced budget at the federal level as early as 1976.

Such a program will involve a re-examination of our national priorities, balancing needs of the economy with social goals. This examination may consequently require that social programs, however worthy, be temporarily restricted to those that do not add to inflationary pressures. (Example: programs which are productive.)

On this assumption, I am restricting my remarks to two major areas of concern: manufacturing capacity and the capital shortage. I can bring personal knowledge to these areas since most of Eaton's products have some bearing, either direct or indirect, on much of U.S. productive capacity. I should like to offer some suggestions for actions that can be taken to assist in these areas by both the Executive and the Legislative branch of the government. My suggestions are not new; I simply want to add my voice in support of them.

First, I am convinced that one of the major factors required to bring about a reduction in prices is simply to increase capacity. Governmental action should be aimed at encouraging the manufacturing segment of our economy to

increase expenditures for capacity expansion. I suggest the following actions:

1. Capital recovery allowances to manufacturing companies that increase capacity, particularly in short supply areas.
2. A moratorium on those legislated expenditures for environmental, safety and social purposes which have seriously impeded needed capacity expansion programs.
3. A review of all government regulations that have proved restrictive to the operation of our free economy. Included here are restrictions on pricing, work and employment practices, certain regulatory codes, and the like. Such restrictions have discouraged the exploration for and development of natural resources as well as the urgently needed expansion of certain regulated industries.

These recommended actions will encourage capacity increases which will help reduce the rate of inflation and, at the same time, make the United States more competitive in world markets. I should like to add that I completely disagree with any programs that are designed to reduce world trade rather than to stimulate it.

My second point, which follows directly from the need for expanded capacity, relates to the formation of capital or the capital shortage in the United States. I believe it is

obvious to everyone in this room that additional capital accumulation is required to meet our country's needs. To assist toward this end, I suggest the following governmental actions:

1. Capital allowances to industry of the kind I referred to earlier.
2. A modification of the tax laws designed to encourage savings and the accumulation and maintenance of capital, as opposed to present tax laws which are slanted in favor of consumption.
3. Provide tax relief which gives recognition to inflation in inventory and other assets without requiring the adoption of complicated and costly accounting procedures.
4. To make more capital available to industry by balancing the budget.

Above all, it seems to me that we must provide simple, easily understood solutions that do not smack of discriminatory treatment and that do not serve to further discredit American industry with the American people. To this end, a frank statement of the pre-eminent importance of a healthy economy among our national goals would be most desirable.

--

Tom Drewek
18655 Gina CT
MT Clemens, Mich
465-3317

This proposal was given to Mr Greenspan last Friday but warrants your attention also

Currency Return

We will never see the value of a penny or a nickle candybar, pack of gum, 20¢ Soda etc; unless, we reissue the currency

For one week, divide the price of anything by 3. See if it doesn't change your psychological attitude toward inflation.

Reissue #1 New money for every #3 old. This (Retain coinage) would contract the supply of money.

Companies would reduce wages by 3 to keep pace.

Consumers would demand a 1/3 reduction in prices

Banks would reduce all loans, mortgages, savings accounts by 3. (Government would effect this by reducing value of Bonds, Bills, etc.

Interest Rate reduced to approx ½ its current level 5½% Prime, 4½% Home Mtg, 2½% savings.
(government reduces Prime Rate to 5%, Treasury Bills to 4½%)

This would increase the availability of Money

Money would flee the bond market to stocks

Companies could sell stock to raise capital

Companies could borrow money at reasonable rates

Increases in productivity would be applied to

(1) lower prices (2) Raise Wages (3) increase Profits

Prices to be contained to no more than ½% per year, Wages to 1% increase per year.

Cut Social Security & Pensions to ½ present level

Taxes would be relatively lower due to

Rates at lower income levels

Real Income is Greater

Much of Inflation in mental attitude. If people believe prices are lower they will be willing to spend. If their wages are less they will spend more wisely. If interest rates and amount borrowed are less they will spend more readily. If the amount for taxes is less they will have more to spend or save improving their overall position.

Government then will have a $100 Billion Budget, National Debt 1/3 of current level. Government must then balance its budget to retain the integrity of the New Dollar and eliminate adverse exchange conditions or speculation attacks against the dollar

This approach could be handled in 5 days to change peoples attitudes and convince them something real has been or is being done

September 17, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
Washington, D. C. 20201

Dear Mr. Dent:

Subject: Solution to the Problem of Inflation

This country is now entering the most critical time in its history. We are currently embarked on a course which inevitably leads to more and more inflation, which will ultimately destroy our economic institutions and may actually cause governmental controls which could destroy the free enterprise system. On the other hand, there are certain corrective actions which could be taken now which can eliminate or at least significantly reduce inflation and be the first step in preserving the most productive economic system in the history of mankind; that is, the free market economy.

In the near future, the President plans a "Summit" meeting of his staff, other appropriate administration officials and congressional leaders, and representatives of business and labor to consider what should be done to eliminate or at least reduce inflation.

The purpose of this letter is to offer for your consideration what I believe to be the only acceptable solution to the inflation problem. In my opinion there are three things which must be done to eliminate inflation. (I do not profess to be an "expert" in economic theory; however, based on more than twenty years of close observation of business and economic activity, plus experience in dealing with people and observation of how they react to changes in economic conditions, I believe I understand how our economic system works. I am a graduate engineer - BS/ME -; I have been in the oil business with Amoco Production Company over 25 years. During my professional career I have kept abreast of current economic and social events through the news media, mainly "Time", "U. S. News & World Report", "Wall Street Journal", etc.).

Before outlining my proposed actions, I must first define "inflation" as I understand it: In the simplest terms, inflation occurs when, (relatively speaking,) "purchasing power" increases faster than available "goods and services".

I have written a similar letter to the President of the United States. As an influential governmental leader who will be involved in the planning for attacking this problem, I urge your serious consideration of the ideas expressed herein. It is my hope that you can agree with my analysis, and will endorse these proposals.

The three courses of action necessary are:

I. Balance the Federal Budget

Deficit spending creates purchasing power not matched by increases in available goods and services and, therefore, causes inflation.

II. Persuade Labor and Industry to not demand or grant salary and wage increases unless matched by corresponding increases in productivity. There is no escaping the direct inflationary effect of increasing wages of an industry's labor force unless there is a commensurate productivity increase. We are currently seeing a direct example of this. The automotive industry has been pressured into exorbitant wage and salary increases (beyond increases in productivity). It is now necessary that they increase their product prices in the order of 8%. The automotive industry must pass on this increased labor cost as an increased cost of their product. The alternative to this action is to go out of business. (Although I believe this is an absolute necessity if we are to eliminate inflation, it <u>must not</u> be attempted through governmental action by additional controls or limitations on labor and industry. The only role government can play, without creating other serious problems, is persuasion and advising the public; plus creating the legal environment in which free and unpressured wage negotiations can be conducted.)

III. Control and limit the growth of the money supply by action of the Federal Reserve Board. I do not know the "correct" rate of growth for the money supply, but I am convinced that it must be limited severely during inflationary periods. Probably, the appropriate rate of money growth is to match the rate of growth of output of <u>real</u> goods and services.

These proposals call for tremendous statesmanship and leadership, and great sacrifices on the part of the entire population in the short run (2 to 3 years). However, in the long run, they offer hope of return to a stable, healthy, highly productive society.

I fully appreciate that the measures I propose appear almost impossible to achieve, particularly the one concerning restraints on labor for additional wage and salary increases. However, I am firmly convinced

there are no easy solutions to this problem. We have in the past violated the three principles described above and the only way to return to a non-inflationary situation is through considerable short-term sacrifice. Also, I am convinced that any program designed to eliminate inflation which does not include these three fundamental principles, or which includes actions or controls which are counter productive to these principles, is destined to fail. These economic principles are as constant and unchanging as the physical laws of the universe. They cannot be ignored.

I suspect the great majority of the people in this country have not made the effort or had the opportunity to understand how our economic system works and they do not understand that these three simple principles offer the only hope to solution of the insidious disease of inflation. Probably they do not recognize that inflation, if allowed to continue to grow, can ultimately cause a complete economic collapse which will destroy the financial and economic institutions of this country. I do think that most people will be willing to make the sacrifices necessary to eliminate inflation if they are convinced that this is the only way. To be convinced, they must be advised by our national thought leaders in government, labor and industry.

This, then, is the greatest challenge which has ever confronted the leadership of this nation.

At this time there seems to be an equal concern that we are going to have a serious recession (or a depression). Let me comment on this thought. Undoubtedly, if we achieve the three measures I have described, in the short term there will be an adverse effect on business activity and this will dictate sacrifices on the part of the entire population. However, the adverse effects of such a recession will be almost insignificant compared to the tragic adverse effects which an economic collapse caused by continuing inflation can create. This is the message which must be conveyed to a significant portion of the population.

Very truly yours,

J. Linwood Durrett

J. Linwood Durrett
3929 Mimosa Drive
New Orleans, Louisiana 70114

JLD/pah
2/24

Sept 24, 1974
10495 Orchard Pk. Dr.
Indianapolis, Ind
46280

Secretary
Dept. of Commerce
Washington, D.C.

Dear Mr. Secretary:

It was mentioned that the public could send their opinions or ideas on how to help fight inflation. I would like to submit the following

The American College Dictionary gives the definition of inflation as,

1. "undue expansion or increase of the currency of a country by the issuing of paper money not redeemable in specie."
2. "a substantial rise in prices caused by an undue expansion of paper money or bank credit."

It follows that only Government can cause inflation because only Government, along with the Federal Reserve Board, can print money.

142202

This is done through an ever increasing national debt that we people owe to international bankers.

Government causes inflation, which in turn causes higher prices. Higher prices do not cause inflation.

I am surprised our leaders do not mention this basic truth.

Very Truly Yours,
B. E. Edwards Jr

News Release

News Department, Dearborn, Mich. 48121
Telephone: (313) 322-9600

RELEASE AT 9 A.M. (EDT) THURSDAY, SEPTEMBER 19, 1974

Following is a text of remarks by Henry Ford II, chairman of the board, Ford Motor Company, at the Business and Manufacturing Conference on Inflation held at the Detroit Heritage Hotel, Detroit, Mich., on Thursday, September 19, 1974:

I will not try to cover the whole broad field of anti-inflation policies but will confine my remarks to a few points that I think are especially important.

Inflation is clearly our number one economic problem. If inflation were just an economic problem, it would be easy to control through the classic economic remedies of fiscal and monetary stringency. Unfortunately, fiscal and monetary stringency cause lower incomes, higher unemployment and social stress, and this makes inflation a social and a political problem as well as an economic problem.

I believe that the American people will be willing to take the cure even though it hurts if they are convinced that the alternative is worse. The first requirement for success in the fight against inflation is to make people understand that out-of-control inflation cannot be lived with and that there is no quick and painless cure.

Such inflation cannot be lived with because it will destroy our economy if it is not checked. It cannot be cured quickly or painlessly because it is caused primarily by worldwide excessive demands on productive resources and slowing these demands will take time and cause hardship.

A few simple figures tell the story for our company. During the 1973 model year, Ford's costs per vehicle went up about $200 because of labor rates, materials costs and other economic factors. Of that increase, 57 per cent was the result of labor cost increases, while 25 per cent reflected increases in the prices of materials.

During the 1974 model year, the same factors raised unit costs nearly $600. Only 25 per cent of that increase was the result of labor costs, while 67 per cent was caused by soaring prices for steel, copper, aluminum, plastics, fuels and other materials.

Because these commodities are traded in world markets, U. S. prices will continue to be influenced by world demand and supply as well as by domestic demand and supply. All nations share the responsibility to keep demand in balance with supply, but the major industrial nations and particularly the United States have the largest responsibility because they account for the greater part of world demand.

The longer-term outlook for raw materials is critically important for the growth of our economy. I believe it is urgent that a Presidential Commission, like the Paley Commission of 25 years ago, be established to study the nation's long-run requirements for raw materials and the prospects for supply from domestic and overseas sources. Such a study might well indicate the need for new national policies to provide for adequate supplies of materials or the timely development of substitutes for any whose future availability is in doubt.

Curing inflation will take less time -- and cause less hardship and less social and political disruption -- if fiscal and monetary restraint is accompanied by restraint in legislation and regulation that increase costs to consumers and add to the strain on available resources. Even though these mandated uses of additional resources do not show up in the Federal budget, they have become a major source of excessive demand.

About 10 per cent of annual capital expenditures, or about $11 billion a year, is now going to meet environmental and safety standards for plants and products. None of these mandatory expenditures increases productivity or adds the capacity needed to relieve shortages and provide more jobs in the future and they displace investments needed to support economic growth.

Current and proposed new safety, emissions and damageability standards for 1976, '77 and '78 model cars would add about $750 per car or $8 billion a year to consumer expenditures if we could meet all of them. These standards would also add about two million tons a year to the materials requirements of the automobile industry, probably would increase gasoline consumption of each new car by about 25 per cent, and would require more than $1 billion of fixed investment by Ford Motor Company alone. In total, these increases in demand for materials, energy and capital would generate substantial inflationary pressure.

It is essential that this whole matter of new standards of all kinds affecting costs and capital demand be reviewed at the highest levels of government. My own view is that all but the most urgently needed new standards should be deferred starting January 1, 1975 -- by administrative action, where possible, and by Congressional action, where new standards are mandated by legislation. The deferral should be for at least five years so that long-lead capital expenditures that would otherwise be necessary in the near future can be avoided. This would help us to get inflation under control more quickly by slowing price increases directly, by reducing excessive demand for materials and energy and by releasing capital needed to expand capacity and improve productivity.

Improving public safety and the environment are high priority national goals. During the next few years, however, major safety and environmental gains will be produced by standards already in effect. By deferring new standards, we can make a major contribution to the struggle against inflation in return for a minor slowing of safety and environmental progress. In view of the social and economic disruption and the political strains caused by inflation, I believe we have no other choice.

###

Statement of

Henry Ford II

Chairman of the Board

Ford Motor Company

For the Official Record of the

Business and Manufacturing Conference on Inflation

Detroit, Michigan

September 19, 1974

The simplest way to summarize my views on inflation is to quote from a statement issued on July 30, 1974 in connection with our 1975 model national news preview:

"These are difficult times for the American economy, but the difficulties are neither mysterious nor incurable. Although other factors have contributed, today's unprecedented rate of inflation has its roots in the decision to finance the Vietnam War and expand domestic programs at the same time by increasing the Federal debt and printing money instead of seeking tax increases that would have made the war even more unpopular. The pattern of excessive demand has continued during most of the past 10 years, and inflation is the inevitable result. In spite of the discouraging developments of the past few years, we believe there are no reasons why the traditional remedies of fiscal and monetary responsibility will not work if the United States has the fortitude to apply them firmly and the patience to wait for results."

To these general observations, I should like to add a few specific comments:

First, I believe that fiscal and monetary policy should be tightened gradually to bring inflation down to an acceptable level without throwing the economy into recession. Federal expenditures in Fiscal Year 1975 should be cut substantially below $300 billion, and the budget for Fiscal 1976 should be in balance.

Continued moderation in the growth of the money supply is needed to help slow the growth of demand. Money increased at a moderate 5-1/2% rate from August, 1973 to August of this year, down substantially from the rapid 7.9% average rate for 1972 and the first eight months of 1973. Money growth was reduced sharply to a 2-1/2% annual rate in the two-month period from June to August of this year. Continuation of such a low rate of growth would cause an abrupt slowdown in demand leading to a recession. I believe the immediate objective for monetary policy should be to maintain a 5-6% rate of growth for the next 12 months. Money growth should be cut to 4-5% during the following 12 months. These recommendations are based on the expectation that inflation will slow to about 8% by the middle of next year and to 7% by the end of 1975. If the inflation rate should slow less than this, a more gradual reduction of money growth would be appropriate in order to avoid a recession. Without a commitment to fiscal and monetary discipline, however, we simply cannot reduce the inflation rate and get back to price stability.

Second, effective income maintenance is needed for those who inevitably will bear the costs of anti-inflationary policy. I recognize, and regret, that even gradual restoration of fiscal and monetary control will mean higher unemployment for a period of several years. The alternative, I believe, is worse. Inflation hurts everyone, including the unemployed, because of the inequities it creates, because it undermines economic efficiency and because it reduces the real income of all.

To alleviate the hardships of the unemployed, I support the adoption of a realistic and effective program of income maintenance to provide cash payments

to those whose incomes are below the level acceptable to society. The present overlapping and burdensome structure of welfare programs should be thoroughly overhauled. Income maintenance should be adequate, it should be simple so that people can understand their rights, and it should not undermine economic independence.

In addition, unemployment compensation should be extended to 52 weeks from the present 39-week maximum. The cost of extended coverage should be paid out of general government revenues, not normal funding, because of the extraordinary cause of lengthy unemployment and because the employers affected will themselves be bearing some of the costs of the economic slowdown.

It may also be necessary to provide special public employment for marginal workers who are unlikely to find private employment until normal economic growth resumes. This problem can be mitigated to some extent by lowering the minimum wage for teen-agers, but a need for some public employment may remain.

Third, I believe we need a steadier course in national economic policy in general so that businesses and individuals can do the planning required to control costs and make the most efficient use of their resources. The several phases of wage and price controls have proved ineffective against inflation and wasteful because of the shortages and misallocations they caused. Selective temporary credit controls would not restrain the overall amount of spending power in the economy, but would merely shift spending from one sector to another. What is needed is continuing Federal Reserve monetary restraint in order to limit bank reserves and bank credit -- the essential underpinning of all credit extension.

I am also opposed to short-run changes in the tax structure such as an increase in the investment tax credit or other actions to stimulate investment in the short-run. We need long-run encouragement to investment, but measures that are turned on and off will have little short-run effect and -- like all major shifts in national economic policy -- they hurt the long-run climate for investment by creating uncertainty. Long-range price stability must be based on more savings, more investment and less consumption, in order to bring supply and demand into overall balance.

Fourth, to have both stable prices and growth of output and employment, growing supplies of basic materials must be assured at reasonable prices. I am concerned about the real danger that efforts by individual countries or blocs to promote their own interests unilaterally may disrupt the entire flow of goods and capital among nations.

I suggest that the President of the United States should call a conference of the major industrial nations as a step toward greater international cooperation in balancing supply and demand, a better outlook for stability in raw material supplies and prices, the strengthening of international financial mechanisms and new ways of reconciling the conflict between the interest of the industrial nations in abundant, low-priced raw materials and the legitimate aspirations of the developing nations for a higher standard of living for their people. In an increasingly interdependent world, all nations must recognize that no nation can advance its own interests by ignoring the interests of others.

In addition, I believe it is urgent that a Presidential Commission, like the Paley Commission of 25 years ago, be established to study the nation's

long-run requirements for raw materials and the prospects for supply from domestic and overseas sources. Such a study might well indicate the need for new national policies to provide for adequate supplies of materials or the timely development of substitutes for any whose future availability is in doubt.

Finally, I believe we must give serious attention to an array of Federal policies that tend to push prices up and to raise the level of inflation. These include rapid increases in the minimum wage, aspects of national labor relations policy which encourage excessive labor cost increases in highly organized sectors of the economy, over-regulation which discourages competition in transportation and other major sectors, subsidies in the form of price support programs, governmental monopoly of postal services, inefficiencies in the public sector and the rapid escalation of Federally-mandated expenditures in the private sector.

About 10 per cent of annual capital expenditures, or about $11 billion a year, is now going to meet environmental and safety standards for plants and products. None of these mandatory expenditures increases productivity or adds the capacity needed to relieve shortages and provide more jobs in the future and they displace investments needed to support economic growth.

Current and proposed new safety, emissions and damageability standards for 1976, '77 and '78 model cars would add about $750 per car or $8 billion a year to consumer expenditures if we could meet all of them. These standards would also add about two million tons a year to the materials requirements of the automobile industry, would require more than $1 billion of fixed investment by Ford Motor Company alone, and probably would increase gasoline consumption of each new car by about 25 per cent.

Soaring energy costs are a significant part of the overall inflation problem. Conservation of energy can therefore make an important contribution to control of inflation. By the same token, government standards which increase the fuel consumption as well as the price of vehicles give inflation a double boost.

It is essential that this whole matter of new standards of all kinds affecting costs and capital demand be reviewed at the highest levels of government. At present, no one knows what fraction of Gross National Product is being devoted to meeting government standards. We need to know the total cost impact of standards and then decide whether the costs are reasonable in light of the benefits they bring and all the other pressing claims on national resources.

Whatever the outcome of such a review, I believe that all but the most urgently needed new standards should be deferred starting January 1, 1975 -- by administrative action, where possible, and by Congressional action, where new standards are mandated by legislation. The deferral should be for at least five years so that long-lead capital expenditures that would otherwise be necessary in the near future can be avoided. This would help us to get inflation under control more quickly by slowing price increases directly, by reducing excessive demand for materials and energy and by releasing capital needed to expand capacity and improve productivity.

Improving public safety and the environment are high priority national goals and I am not suggesting that they should be scrapped as part of the struggle against inflation. But I am suggesting that the root cause of inflation is the illusion that we can have everything we want all at once. During the next few years, major safety and environmental gains will be produced by standards already

in effect. By deferring new standards, we can make a major contribution to the struggle against inflation in return for a minor slowing of safety and environmental progress. In view of the social and economic disruption and the political strains caused by inflation, I believe we have no other choice.

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St Louis Globe Democrat Business & Financial

Thursday, August 22, 1974—Page 11A

Equity capital squeeze called critical

By TED SCHAFERS
Business & Financial Editor

Rising inflation is a matter of serious concern for every American but another problem even more serious, if not resolved soon, "is the growing inability of American business to raise the capital needed for its growth and survival."

This is the opinion of Joseph Friedman, board chairman of Chromalloy American Corp., worldwide diversified company here which employs about 20,000 persons.

"So long as people are working, they can gradually cope with most of the problems of inflation. But, if the equity markets dry up because there is no coordinated economic policy to preserve this country's ability to raise capital at reasonable costs, you will see chaos here within two years," he declared.

"Adequate capital is the lifeblood of business and the only real job-generator," he added.

Returning here after putting in 50,000 miles of travel in less than two months, including a trip to Russia where Chromalloy opened a business office, Friedman said.

The No. 1 concern expressed by businessmen is a lack of intelligent direction of U.S. economic policy, and the impact of plunging stock market prices on the capability of American industry to raise new funds through equity financing.

Joseph Friedman

100 of America's finest companies today are selling at 50 per cent true value. These companies cannot sell new stock to raise capital. So they are forced into bonds at 10 to 12 per cent interest, or into banks at 12 to 15 per cent. And those interest costs are passed on to the consumer — thus further aggravating inflation," said Friedman.

"I found very few businessmen of any prominence who subscribe to the high-interest rate policy of the Federal Reserve Board directed by its chairman, Arthur Burns. Show me one period in our history where Americans have had prosperity during a period of tight money," he said.

Reminded that even the top-ranked economists disagree over how to solve inflation and have been proven wrong the past two years on their predictions, Friedman replied:

"I have my own opinion of economists and financial analysts. But that's not important. What we need to do is get advice from more practical men, and settle on a definite economic policy that will encourage business to expand and thus provide more jobs, rather than run for cover as so many are doing now."

Friedman said "it is time for the press, too, to take a more constructive look at the needs of American business, yes, what the very survival of a free enterprise system, means to everyone in this country. I use the term 'constructive' not in the sense that all the faults of business be overlooked, but that its accomplishments and needs gain better recognition," he declared.

ON AUG. 1, a committee of a dozen officers of New York banks and investment firms wrote a letter to President Nixon asking that a White House Office be established "to assure the effectiveness of this nation's capital raising processes."

This office would have authority to recommend legislation where needed and would also initiate and coordinate policy with the Federal Reserve Board, the Securities & Exchange Commission, the Treasury Department and the Justice Department as well as other agencies.

Said Friedman: "What concerned this committee is that no one person or office in this country now has specific authority or responsibility to tackle this country's capital needs. And in the words of this distinguished group, it is now time to give this matter, 'highest priority'.

"Adequate capital is the lifeblood of business and the only real job-generator."

"So far as I have been able to determine that plea got lost in the turmoil of Watergate. But I say, if the warning goes unheeded, the repercussions to the nation's economic and social structure will make Watergate pale by comparison."

Friedman feels that there are still too many people in academic and government fields of influence who still do not understand that "business without profit cannot raise capital and without adequate capital, it cannot survive."

He also feels that too many business writers "emphasize total dollar profits, rather than what those profits represent as a return on invested capital."

Business has been at fault too, "we have not done an effective job of communication. I still feel that Americans, given the facts, will find the right answers."

What should Congress be doing to encourage equity investment? Said Friedman:

ONE: Support rather than attack measures to increase investment tax credits where used to open up new job opportunities.

TWO: End the double taxation of profits. Corporations now pay 50 per cent tax on profits. Then stockholders are taxed on the profit that remains and is disbursed as dividends. "No other country has such a double-taxation," he said.

MAIN OFFICE
901 WEST LAFAYETTE BOULEVA
DETROIT, MICHIGAN 48226 U
Area 313 / 962-3444

ADGLOV

ADVANCE GLOVE MANUFACTURING CO.

MARVIN A. FRENKEL
Vice President

August 29, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
Washington D.C. 20230

Dear Secretary Dent:

Thank you very much for your July 31, 1974 letter notifying me formally of my appointment to the Industry Sector Advisory Committee (ISAC) on Leather and Leather Products. It is a pleasure and honor for me to join this Committee. Thank you very much.

Enclosed is my article

The Abridging of our Freedom of the Press -
Without Really Trying

which identifies some additional causes of the current inflation. Would appreciate very much your comments. Again thank you and kindest regards,

Sincerely,

MAF:aaa
Enclosure

THE ABRIDGING OF OUR FREEDOM OF THE PRESS -

WITHOUT REALLY TRYING

The First Amendment to the Constitution says, "Congress shall make no law...abridging the freedom...of the press." But laws made in other areas (foreign policy and foreign trade) causing inflation have abridged our freedom of the press without really trying. The power to tax is the power to destroy; that is why newspapers and magazines are exempt from sales taxes. Inflation is the insidious secret tax that steals from us all including the Free Press.

In recent years, paper, mail, and other cost increases, caused by inflation shortages, have made it ever more difficult for newspapers and magazines to exist.

Look and Life magazines, once great regular publications, are gone. Esquire, many others, and newspapers are shrunk in size and content. So, clearly our free press is abridged.

* * *

According to the shrunken New York Times, "We are in a time of concentrated media power, with three national television networks and only one or two newspaper ownerships in most cities."[1]

"It is proper to take alarm at the first experiment on our liberties."[a] "I believe there are more instances of the abridgment of the freedom of the people by gradual and silent encroachments...than by violent and sudden usurpations."[b]

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[1]New York Times. March 24, 1974. P. 2E.

[a]James Madison, 4th President of the United States, a Memorial and Remonstrance, addressed to the General Assembly of the Commonwealth of Virginia, 1785.

[b]James Madison, address Virginia Convention, June 16, 1788.

Marvin A. Frenkel, 901 W. Lafayette Boulevard, Detroit, Michigan 48226
 Stylistic Aid, E.A. Arnason

* * *

SOME CAUSES AND EFFECTS OF THE INFLATION

Our foreign policies and foreign trade policies have in large part caused our high inflation, dollar devaluations, and shortages. Our standard of living is falling.

Instead of our accustomed 1st place per capita gross national product, in 1972. we were 4th.

1972 PER CAPITA GNP[2]

1st	Switzerland	$6,200
2nd	Sweden	5,850
3rd	W. Germany	5,600
4th	U.S.A.	5,500

* * *

Billions of U.S. Dollars in Foreign Hands

1960	1965	1970	1973	
21	29.6	47	93.2	(Footnote 3)

Because energy is basic, its demand is a good indicator of demand in general. The energy demand of the free world outside the United States has climbed much faster than the U.S. demand. As Europe's and Japan's demand for energy has gone up, so has their standard of living and their demand for all materials including paper.

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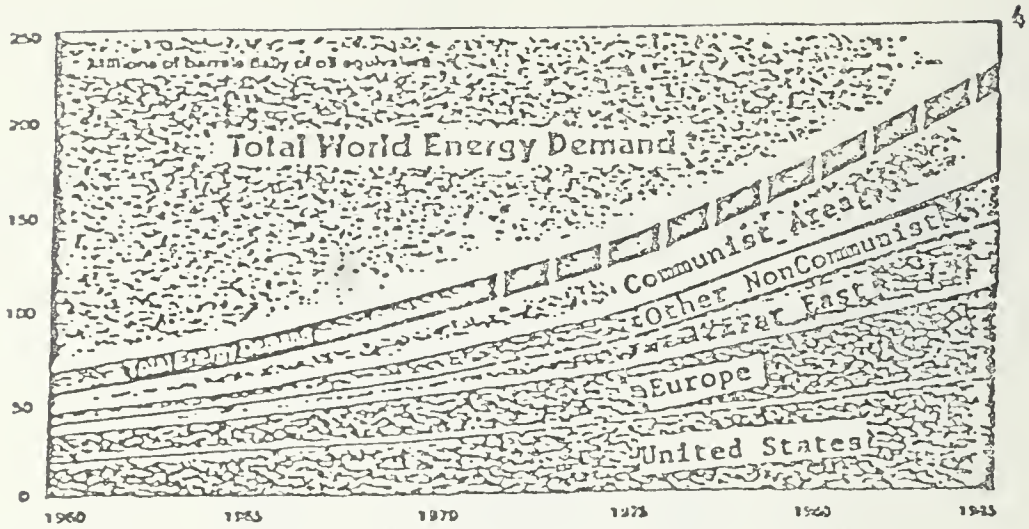
[2]New York Times, November 25, 1973, attached.

[3]Treasury Bulletin, International Financial Statistics Table IFS-2-U.S. Liquid and Other Liabilities to All Other Foreigners as of July, 1973. Attached.

Marvin A. Frenkel, June 20, 1974, Detroit, Michigan 48226



Demand has been growing steadily. Assuming no significant limitations in available supply, the outlook is for sustained growth, almost doubling world consumption by 1985

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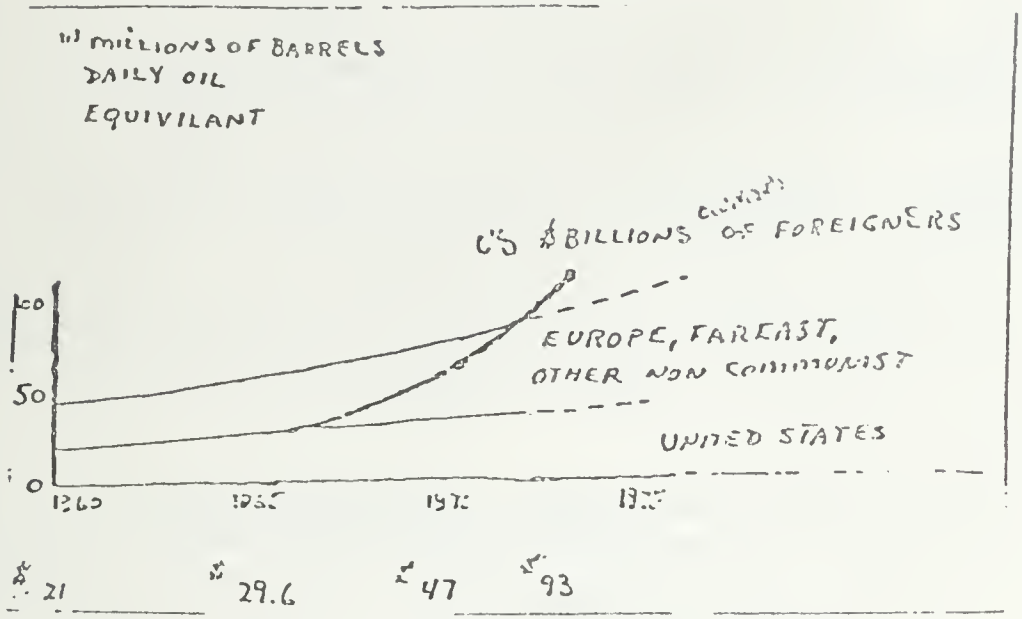
[4] Time Magazine Ad, November, 1973.

Marvin A. Frenkel, June 12, 1974.
Detroit, Michigan 48226

TOTAL NON-COMMUNIST WORLD ENERGY DEMAND



Showing how the Billions we have given away gave the non-Communist world the money to increase their energy demand.

Marvin A. Frenkel, June 18, 1974
Detroit, Michigan 48226

As of July, 1973, foreigners held $93,217,000,000 (93.2 Billion Dollars) worth of American currency, stocks and bonds up from $16 Billion in 1957. If they had earned all this by producing goods and services on the same basis as Americans, we would not be experiencing our rapid inflation and severe shortages. But, they did not earn their $ Billions by producing goods and services on the same basis as Americans. In large part we gave the $ Billions to them, and these $ Billions are bidding up prices of real goods all over the world. The result is inflation at home and abroad.

At the same time foreigners acquired tens of Billions of American dollars almost free, our National Debt has risen by more tens of billions of dollars paying bills for foreigners that they should pay. As some of our allies grow richer, we go deeper into debt.

Here are some ways foreigners acquired these "free" $ Billions and we paid on their behalf more $ Billions:

U.S. defense of the free world

Free U.S. know-how

Our rebuilding of war shattered countries

"Slave trade" - Imported goods, made at wages and conditions well below those allowed by American law, are freely shipped in Interstate Commerce, resulting in the slaughter of American factories and the loss of American jobs, while foreigners pump out billions of dollars in unfair profits.

A super bonanza of U.S. Dollars from devaluations caused by the above. In order to pay for these benefits given foreigners, the U.S. Government has gone further and further into debt creating money not earned. As a result, the U.S. Dollar was weakened and devalued. So, some of our allies get more dollars than before in return for their currency - their marks or yen.

Marvin A. Frenkel, June 20, 1974, Detroit, Michigan 48226

* * *

Paper, the basic material of our Free Press, is made from wood. At present, "...seventy percent of the wood cut in Alaska is shipped to Japan..."[5]

"Newspaper Headlines called it 'Another Crisis on the Way!' Last spring, lumber and plywood prices reached a new peak, double those of 1970...Woodpiles beside 60 million dollar pulp mills shrank to only a days supply...Congress debated a ban on timber exports."[6]

* * *

After the Second World War, America did not loot, pillage, and demand reparations as other countries have of their defeated enemies. Instead we rebuilt the war-shattered countries and economies at great costs to ourselves till they too became free and prosperous peoples. We gave them Billions of Dollars in food, material, machinery, and the latest technology, and their factories are now the most modern in the world. We protect them and their shipping on the high seas with our Armed Forces - at our cost. We have opened the great market of the United States of America to a flood of their products.

These policies made sense for a few years after World War II, but they have become expensive habits, which we can no longer afford.

It is at least as much in the self interest of our allies as for us for the U.S. to remain powerful and able to protect the free world. They need us; we need them; they need us more than we need them. Their wealth will be worth nothing if the United States is weakened or goes bankrupt.

* * *

The following example shows our disadvantages vis-a-vis Japan. Much of it is true of other countries.

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[5]National Geographic, April 1974. P. 492, attached.

[6]National Geographic, April 1974. P. 485, attached.

ANOMOLIES OF UNITED STATES POLICY TOWARD JAPAN

If Japan in the 1940's had won the war they could not have obtained the benefits they have today.

1. Japan has become the creditor nation and, we, the United States the debtor.

2. The United States Armed Forces, supported by American taxpayers, protect Japan from foreign aggression.

3. The United States Armed Forces (at a huge cost in life, blood, tears, and costs of hundreds of $ Billions to us) have opened new markets for Japan, such as Korea, Vietnam.

4. The United States permits Japan to export almost at will into the United States, whereas Japan has severe restrictions against importing from the United States any products which they do not have to import (e.g.) they have to import raw materials; they do not have to import automobiles.

5. Japanese traders ship products into the United States made by workers paid so little, in unsafe factories polluting so much with working conditions so poor that if those factories were here the Federal Government would close them and file criminal and civil charges against the owners for sub-legal wages, pollution, OSHA, Fair Labor Standards, Social Security, and child labor violations.

6. Because the United States protects Japan and gives it free markets, Japan pays almost nothing to support its armed forces (less than 1% of its GNP or $25 per year per person compared with U.S.A. $400 per year per person) and even less in contributing to develop underdeveloped nations. Therefore, their costs of production, aside from their lower wage rates and higher productivity, can be and are much lower than U.S. costs. Thus, they are able to take markets away from us - both old markets and the new ones we open up through the development of underdeveloped countries.[7]

7. Unlike the American businessman, Japanese businessmen have complete freedom in their use of expense accounts. It is common for Japanese businessmen to spend thousands of dollars lavishly entertaining American customers with the acquiescence of the Japanese tax collector.[8]

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[7] New York Times - A Curious War, Even Depicted on Picture Postcards, March 7, 1970.

[8] U.S. News & World Report, March 9, 1970.

Marvin A. Frenkel, June 20, 1974, Detroit, Michigan 48226

II We should present Japan with a bill for services rendered of at least 500 Million Dollars per month and collect it. The services are:

A. Protecting Japan from foreign aggression.

B. Opening markets for Japan including the United States

C. Protecting their shipping on the high seas.

Japan refuses to send troops to help us protect Southeast Asia, saying it is against their constitution. There is, I suppose, nothing in their constitution that would interfere with their paying our monthly bill for services rendered.

* * *

THE EFFECT OF THIS WOULD:

A. Reduce Japan's huge Dollar balances ($20-$40 Billion) which would impair its future ability to buy and/or preempt strategic materials, denying them to us.

B. Fairly increase their costs of production (they would be paying their share of defense and of developing underdeveloped countries) which would tend to put them on a competitive basis with the United States.

C. Benefit the United States balance of payments and our world competitive and defense abilities.

The Japanese are an intelligent, industrious, homogeneous, and ethnocentric nation who have made tremendous economic strides since the end of the Second World War. We made them the economic power they are today with our benignness, protection, and subsidies of money, equipment, facilities, and know-how. There seems no reason why we should continue to give them free advantages. They should pay their fair share.

* * *

The foreigners have found it easy to be successful in business because we pay their bills for them. If the foreigners had fairly earned their hoard of U.S. Dollars, one could not complain, and there would not be the current wild inflation. But, they did not earn the $ Billions by fairly producing products and services. If they had, todays shortages would not exist. Our allies' unearned $ Billions buy materials and products in competition with us causing inflation.

* * *

Much of this is supported by a few Americans, who use misleading slogans about the "importance of free trade" and the "evils of protectionism". The terms "free trade" and "protectionism" as used today with respect to imports are misleading. As indicated above, there is nothing free at all about "free trade". While foreign finished goods pour into the United States, our products are denied access to foreign markets. "Free trade" as it exists today is a one-way street.

To most people, "protectionism" means giving American industry "unfair protection"; whereas "protectionism" now exists to protect unfair foreign competition. Not only do foreign governments protect their own industries, but the American government extends special advantages to foreign manufacturers - by letting in goods made at substandard wages and in unsafe working conditions. And more and more Americans are forced down to lower income by inflation's ravages and unemployment.

Rather than benefiting as "advertised" from low cost imports, we pay ever higher inflationary prices for our essentials - food, fuel, housing, and clothing, while inflation gnaws away our savings.

* * *

In addition to billions of dollars in the hands of foreigners, our country's National Debt has increased $100 Billion in the last 5 years. Much of this can be attributed to the free things we give to the free world. Our national economy has been injured by this give-away policy, and we Americans have not profited. Inflation is reducing our standard of living. We live in colder houses and buy food with much more care. Our factories are becoming obsolete because inflation/shortages prohibit modernization, and interest rates are the highest since our Civil War. Automobile manufacturers - even with sales slowed - are unable to buy enough steel to produce the cars they can sell.

* * *

Foreigners make campaign contributions and donations to our great thought centers like Harvard University while continuing to unfairly acquire $ Billions from us.

While our Armed Forced protect the Orient, Japan is forcing our Voice of America radio transmitter off of Okinawa. When our war planes in 1973, were on the way to the Middle East to protect the oil for our NATO allies, our NATO allies refused to let our planes land in their countries.

Marvin A. Frenkel, June 20, 1974, Detroit, Michigan 48226

* * *

The inflation and inflation/shortages will continue to increase as long as we continue to give the free world $ Billions in military protection and unfair trade advantages.

Our free press will be even more abridged and our great country's economic security and freedoms further endangered.

Marvin A. Frenkel, June 20, 1974, Detroit, Michigan 48226

U.S. BUSINESS ROUND-UP

THE NEW YORK TIMES, SUNDAY, NOVEMBER 25, 19[illegible]

Fixing the Blame

As Americans increasingly realize that the energy crisis is not just a passing annoyance, the search for scapegoats has begun, with the environmental movement a choice and obvious candidate. In an eloquent refutation of such demagogy John R. Quarles Jr., Deputy Administrator of the Environmental Protection Agency, points out that the "long-overdue" burdens imposed by environmental concern have fallen on the nation's energy industries just at the moment when they are under severe strain "for reasons having nothing to do with the environment."

That strain results from a growth in energy demand so rapid since World War II that, regardless of all other considerations, a drastic reordering of American energy expenditures could be only a matter of time. To the overwhelming pressures of this country's industrial growth were suddenly added the spectacular burgeoning of the economies of Western Europe and Japan, which, without any oil of their own, have been competing avidly for the world's supply. In such a seller's market it took neither the Arab-Israeli struggle nor efforts to save the environment to produce a rise in oil prices steep enough to put a sharp brake on the American consumption of energy.

By any rational and objective standard, such a curtailment has long been warranted. A nation with 6 per cent of the world's population could not expect indefinitely to get away with sopping up 30 per cent of the world's energy fuels. It is the lopsided demand, the unrestrained consumption of petroleum—caused particularly by the priority given the private automobile over mass transit—that is the real cause of the crisis, not the delay in getting North Slope oil or the environmentalists' tentative success in curbing destruction of the nation's waters and the fouling of its air.

We're No. [illegible]

Mirror, mirror, on the wall who's the richest of us all Maybe it's done with mirrors, but the Swiss Credit Bank has come up with a recalculation of 1972 gross national product figures that puts Switzerland in first place, on a per capita basis with $6,200, followed by Sweden with $5,850 and West Germany with $5,60[illegible]. The United States, the accustomed leader, trails in fourth place with $5,50[illegible] followed by Denmark and France.

The arithmetic is performed by dividing a nation's G.N.P. by its total population. The intent is to show national well-being.

The trick in the revised calculation comes from using current exchange rates that show a twice-devalued and now-floating dollar trading at a deep discount against strong European currencies.

The New York Times in its advocacy of the spectacular burgeoning of the economies of Western Europe and Japan may feel a sense of satisfaction that we are no longer "getting away" with sopping up 30% of the worlds energy fuels because we are now No. 4 from No. 1 per capita income trailing Switzerland, Sweden, and West Germany. If we continue the foreign trade and foreign policies advocated by The New York Times perhaps we can soon be No. 1[illegible] or No. 20.

and Liquid Liabilities to All Other Foreigners

(In millions of dollars)

End of calendar year or month	Total	Liquid liabilities to IMF arising from gold transactions 1/	Liabilities to foreign countries: Official institutions 2/: Total	Liquid: Short-term liabilities reported in banks in U.S.	Liquid: Marketable U.S. Treasury bonds and notes 3/	Liquid: Nonmarketable convertible U.S. Treasury bonds and notes	Other readily marketable liabilities 4/	Nonmarketable nonconvertible U.S. Treasury bonds and notes 5/	Liquid liabilities to banks 6/	Liquid liabilities to other foreigners: Total	Short-term liabilities reported by banks in U.S.	Marketable U.S. Gov't. bonds and notes 3/ 7/	Liquid liabilities to international and regional organizations 8/
1957	13,823 9/	200	n.a.	7,917	n.a.	-	-	-	3,472	n.a.	2,232	n.a.	
1958	16,845 9/	200	n.a.	8,665	n.a.	-	-	-	3,520	n.a.	2,430	n.a.	1,
1959	19,428	500	10,120	9,154	966	-	-	-	4,678	2,940	2,399	541	1,
1960 10/	20,994	800	11,073	10,212	866	-	-	-	4,813	2,773	2,230	543	1,
	21,027	800	11,088	10,212	876	-	-	-	4,818	2,780	2,230	550	1,
1961 10/	22,853	800	11,830	10,940	890	-	-	-	5,404	2,871	2,355	516	1,
	22,936	800	11,830	10,940	890	-	-	-	5,484	2,873	2,357	516	1,
1962 10/	24,268	800	12,948	11,997	751	-	-	200	5,346	3,013	2,563	448	2
	24,268	800	12,914	11,963	751	-	-	200	5,346	3,013	2,563	448	2
1963 10/	26,433	800	14,459	12,467	1,217	703	9	63	5,817	3,337	3,046	331	1
	26,394	800	14,425	12,467	1,183	703	9	63	5,817	3,337	3,046	341	1
1964 10/	29,313	800	15,790	13,224	1,125	1,079	158	204	7,271	3,730	3,354	376	1
	29,364	800	15,786	13,220	1,125	1,079	158	204	7,303	3,753	3,377	376	1
1965	29,569	834	15,826	13,066	1,105	1,201	120	334	7,419	4,059	3,587	472	1
1966 10/	31,145	1,011	14,841	12,484	860	256	913	323	10,116	4,271	3,743	528	
	31,020	1,011	14,896	12,939	860	256	913	323	9,936	4,272	3,744	523	
1967 10/	35,819	1,033	18,201	14,034	908	711	1,807	741	11,209	4,685	4,127	558	
	35,667	1,033	18,194	14,027	908	711	1,807	741	11,025	4,678	4,120	558	
1968 10/	38,687	1,030	17,407	11,318	529	701	2,341	2,518	14,472	5,053	4,444	609	
	38,473	1,030	17,340	11,318	462	701	2,341	2,518	14,472	4,909	4,444	463	
1969 10/	45,755 11/	1,019	15,975 11/	11,034	346	555 11/	1,505	2,515 11/	23,638	4,464	3,939	525	
	45,914	1,019	15,998	11,077	346	555	1,505	2,515	23,645	4,589	4,064	525	
1970 10/	47,009	566	23,786	19,333	306	429	695	3,023	17,137	4,676	4,029	647	
	46,940	566	23,775	19,333	295	429	695	3,023	17,169	4,604	4,039	565	
1971 10/ 12/	67,681	544	51,209	39,679	1,955	6,060	144	3,371	10,262	4,123	3,691	447	
	67,808	544	50,651	39,018	1,955	6,093	144	3,441	10,949	4,141	3,694	447	
1972	82,886r	-	61,524r	39,998r	5,206	12,108	543	3,639	14,665r	5,070r	4,645r	425	
1973 p	92,588	-	66,790	43,914	5,686	12,319	1,661	3,210	17,645	6,153	5,723	430	
1973-Jan.	82,049r	-	60,796	38,534	5,798	12,110	574	3,780	14,693r	4,966r	4,541r	425	
Feb.	87,856r	-	68,475	45,413	6,377	12,110	948	3,627	12,679r	5,082r	4,710r	372	
Mar.	90,836r 13/	-	71,335r	46,928r	6,917	12,128 13/	1,745	3,617	12,769r	5,144r	4,768r	376	
Apr.	90,582r 13/	-	70,752r	45,953r	6,934	12,245	1,989	3,631	12,851r	5,348r	4,949r	399	
May	92,087r	-	70,919r	46,116r	6,934	12,245	1,996	3,628	14,053r	5,361r	4,977r	334	
June	92,188r	-	70,700r	45,712r	6,934	12,245	2,004	3,805	14,356r	5,463r	5,080r	383	
July	93,217r	-	71,026r	46,136r	6,934	12,245	2,006	3,705	15,311r	5,363r	4,989r	374	
Aug.	92,578r	-	70,520r	45,721r	6,906	12,319	2,019	3,555	15,076r	5,450r	5,115r	335	
Sept.	92,072	-	69,775	45,172	6,914	12,319	2,015	3,355	15,026r	5,652r	5,305r	347	
Oct.	93,173r	-	69,701	45,211	6,929	12,319	2,009	3,233	15,933r	5,699r	5,325r	374	
Nov.	92,581	-	67,398	43,789	6,207	12,319	1,849	3,234	17,256	5,917	5,507	410	
Dec. p.	92,588	-	66,790	43,914	5,686	12,319	1,661	3,210	17,645	6,153	5,723	430	
1974-Jan. p.	90,076	-	63,848	41,547	5,214	12,321	1,556	3,210	18,019	6,294	5,833	449	

Note: Table is based on Treasury Department data and on data reported to the Treasury Department by banks and brokers in the United States. Data correspond generally to statistics following in this section and in the "Capital Movements" section, except for the exclusion of nonmarketable, nonconvertible U.S. Treasury notes issued to foreign official nonreserve agencies and the inclusion of investments by foreign official reserve agencies in debt securities of U.S. Federally-sponsored agencies and U.S. corporations. Table excludes International Monetary Fund "holdings of dollars," and holdings of U.S. Treasury letters of credit and nonnegotiable, noninterest-bearing special U.S. notes held by other international and regional organizations.

1/ Includes liability on gold deposited by the International Monetary Fund to mitigate the impact on the U.S. gold stock of foreign purchases for gold subscriptions to the Fund under quota increases, and U.S. Government obligations at cost value and funds awaiting investment obtained from proceeds of sales of gold by the International Monetary Fund to the United States to acquire income-earning assets.

2/ Includes Bank for International Settlements and European Fund.

3/ Derived by applying reported transactions to benchmark data; breakdown of transactions by type of holder estimated 1960-1963.

4/ Includes long-term liabilities reported by banks in the United States and debt securities of U.S. Federally-sponsored agencies and U.S. corporations.

5/ Includes notes issued to foreign official nonreserve agencies.

6/ Includes short-term liabilities payable in dollars to foreign banks, and short-term liabilities payable in foreign currencies to foreign banks and to "other foreigners."

7/ Includes marketable U.S. Government bonds and notes held by foreign banks.

8/ Principally the International Bank for Reconstruction and Dev the Inter-American Development Bank and the Asian Development

9/ Includes total foreign holdings of U.S. Government bonds and for which breakdown by type of holder is not available.

10/ Data on the two lines shown for this date differ because of c reporting coverage. Figures on the first line are comparable coverage to those shown for the preceding date; figures on th line are comparable to those shown for the following data.

11/ Includes $101 million increase in dollar value of foreign cu liabilities resulting from revaluation of the German mark in 1969, as follows: liquid $17 million; other $84 million.

12/ Data on the second line differ from those on the first line b certain accounts previously classified as "official institutio included with "banks"; a number of reporting banks are inclu series for the first time; and foreign currency liabilities institutions of foreign countries are increased in value to market exchange rates as of December 31, 1971, as follows: U Treasury certificates, $7 million; nonmarketable convertible Treasury bonds and notes, $33 million; and nonmarketable non tible U.S. Treasury bonds and notes, $70 million.

12/ Includes $15 million increase in dollar value of foreign cu liabilities revalued to reflect market exchange rates.

13/ Includes $147 million increase in dollar value of foreign cu liabilities to official institutions of foreign countries re to reflect market exchange rates, as follows: short-term li $15 million; nonmarketable convertible U.S. Treasury notes $ million; nonmarketable nonconvertible U.S. Treasury notes $1 not available. p Preliminary. r Revised.

diesel-powered yarding machines can haul them to the truck landing.

I learned why a logger wears calked boots. We walked, ran, leaped, and scrambled in a tangle of fallen trees six feet above the ground. Where the bark had fallen from a log, the wood was like a curving sheet of ice; and where there was bark, it sometimes broke loose under our weight.

Each time the set of three 30-foot chokers came swinging and dancing down the 700-foot overhead cable, we seized them, tucked each over and under a log, then cinched them tight—"choking" the logs.

As the diesel revved up at the steel tower, we scampered out of the way—for the chokers first jerk up one end of each two-ton log, then wrench it free from the tangle, and drag it like some mammoth fish toward the landing. The logs around us shifted and rumbled in protest. I was reminded of the old-time logger who was once asked why, in such a dangerous business, his crews suffered so few accidents. His reply: "I just tell 'em—'Run, you sons of guns, run or die!'"

Off-duty Loggers Head for the Fo'c'sle

Little wonder that after a couple of weeks in the brush, a logger may buy a floatplane ticket to Ketchikan to let off steam. No matter where he finds a room, he'll show up eventually at the Fo'c'sle, the logger's bar.

Here a leathery veteran can find his heart's desires: plenty of logging talk, an endless supply of beer, tall stacks of "snoose"—Copenhagen snuff.

On a big weekend, flush with payday cash, a man can prove himself a man—with a fistfight or by "ringing the bell." By ringing the old brass bell, a man buys drinks for the house, an expensive but satisfying gesture.

Many if not most of Ketchikan's citizens are happy the loggers are here—the timber industry provides more than half the city's paychecks. But I discovered that in Alaska—as in almost every other region I visited—logging brings controversy.

The coming of the timber industry to Alaska was the culmination of a Forest Service dream. The Tongass National Forest, in the southeastern part of the state, held a treasure of old growth—virgin timber that could bring jobs to an economically depressed area, increase federal and state revenues, and encourage forest management.

In the 1950's the Forest Service made two 50-year contracts, one with a U. S. company, the other with a Japanese-owned company. In the '60's Tongass harvests soared.

Japan Relies On Alaskan Timber

Seventy percent of the wood cut in Alaska is shipped to Japan—as lumber, or as pulp for the manufacture of rayon, cellophane, and photographic paper. A fleet of specially built Japanese ships ply the route.

Thirty percent of the wood is shipped as pulp to the U. S. market.

Conservation-minded citizens claim that the cost to the beauty of their region, to wildlife, and to the environment may come too high. One day I flew over much of the Tongass with Harry Merriam, a biologist with the Alaska Department of Fish and Game. "I'm not against logging, only those practices that harm the environment." He pointed out vast clear-cuts, stumps and cull trees pushed into streams, salmon streams stripped of shade, wildlife habitat "slicked off," tons of slash left to rot (preceding pages).

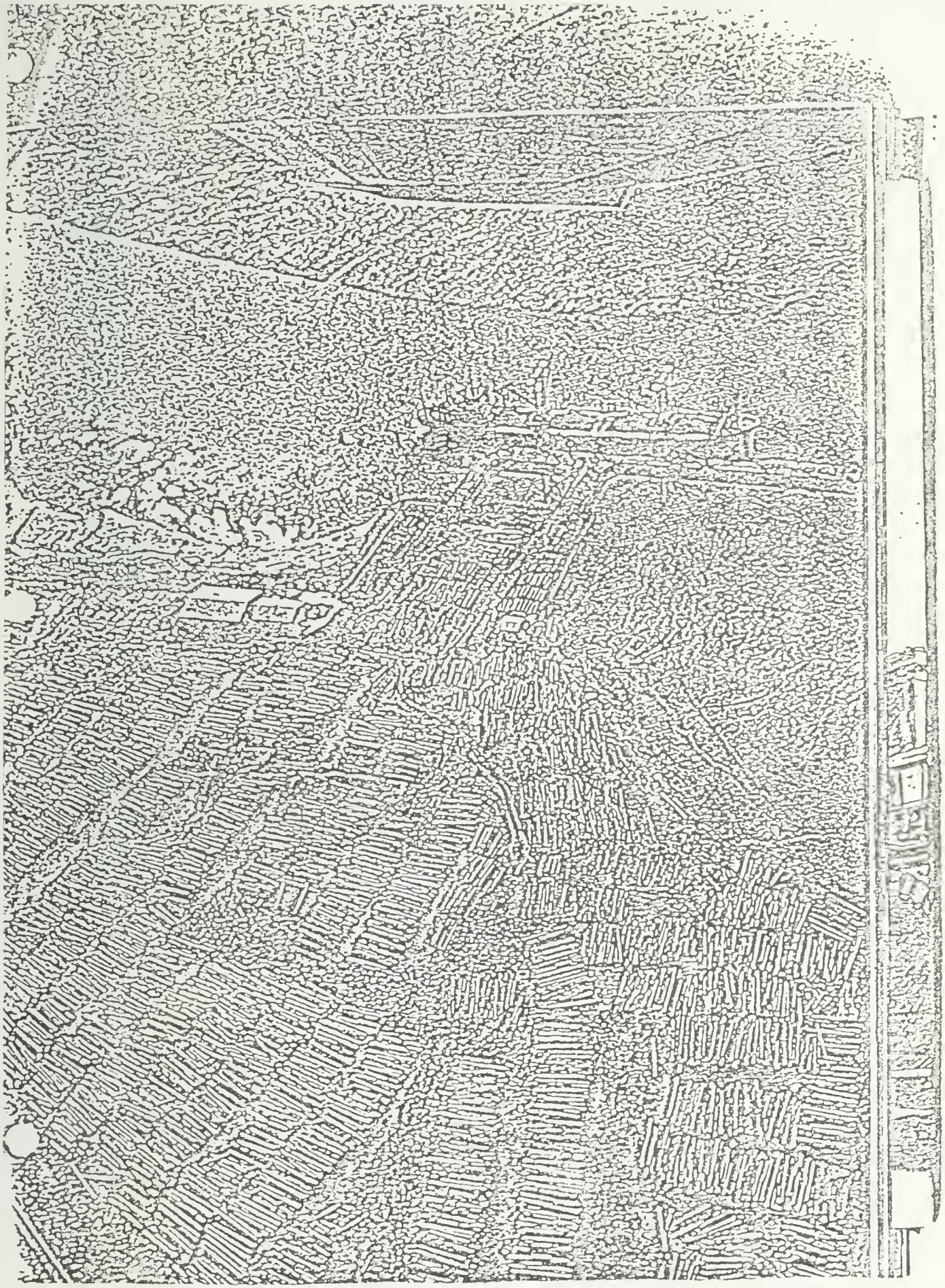
"Things have improved in the past few years because of public pressure, but more changes are needed. There's room here for loggers, wildlife, and people who love wilderness, if activities are properly managed."

We touched down at Point Baker, a community of some 30 people. Herbert Zieske, 64, welcomed us. He has lived there 30 years, fishing, trapping, raising a family. Now he fears for the community's future.

"They want to cut off that mountain there," he said. "We live here because we like this life, and we don't want it ruined. If they start cutting, that mountain will become an eyesore—and there'll be the sound of chain saws and logging trucks all day. We told the Forest Service we don't want 'em to do it, but I don't know what will happen to us."

The Forest Service has recently moved to meet some *(Continued on page 497)*

Destination: Asian sawmills. Enough wood to build a thousand three bedroom houses crams Fields Landing at Eureka in northern California. Open holds of a freighter take on Douglas fir and redwood for Japan and Korea. Nearly one softwood log in 20 goes abroad, mostly to feed Japanese industry



Timber

HOW MUCH IS ENOUGH?

By JOHN J. PUTMAN

Photographs by BRUCE DALE

BOTH NATIONAL GEOGRAPHIC STAFF

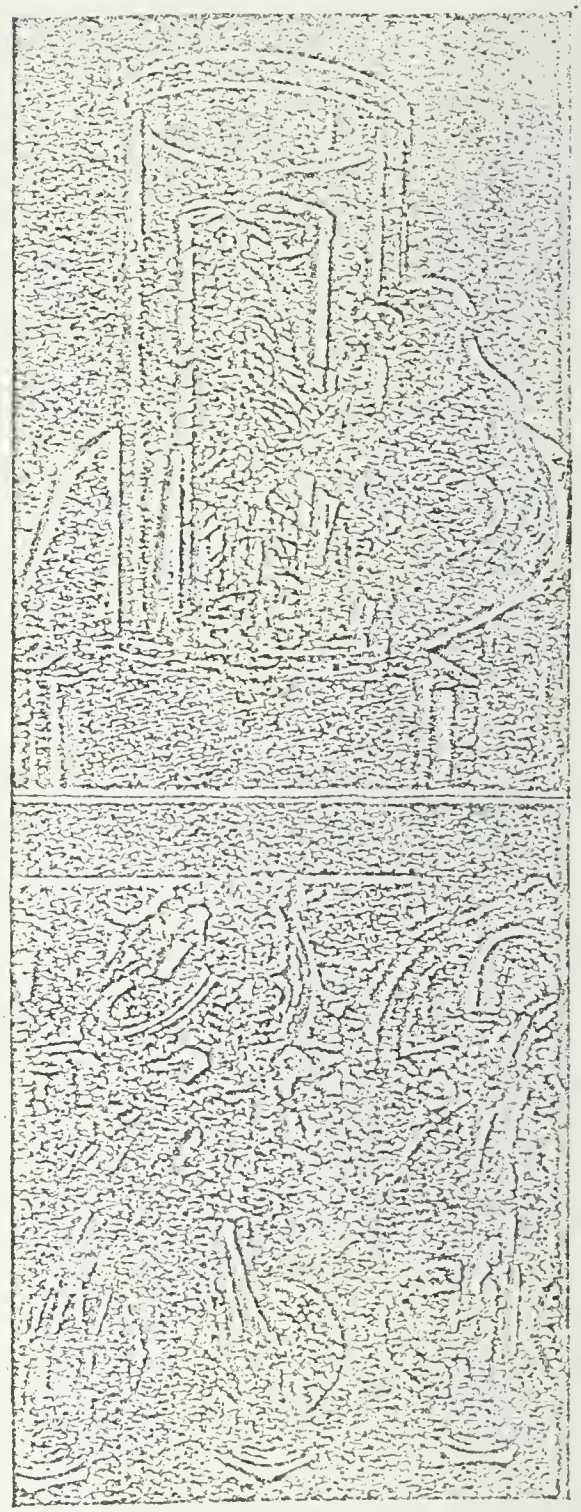
NEWSPAPER HEADLINES called it "Another Crisis on the Way!" Last spring, lumber and plywood prices reached a new peak, double those of 1970. Manufacturers allocated items in short supply to favored customers. Home builders cried for relief, citing the nation's goal of a decent house for every American.

Woodpiles beside 60-million-dollar pulp mills shrank to only a day's supply. And while tree rustlers struck in the dead of night to whisk away walnut trees that might fetch $2,000 each, homeowners were confronted with price tags as high as $1.80 on the once-humble eight-foot "two-by-four"—which already measured only 1½ by 3½ inches.

Controversy followed. Congress debated a ban on timber exports. Industry spokesmen and a special President's panel called for stepping up the cut in the national forests. Conservationists protested.

It seemed indeed as if we faced a timber crisis. But unlike oil and many other resources, timber is renewable. Forests can be regrown and our supply of wood even increased. The remedy is not easy—it will require improved management, massive investments, and the abandonment of wasteful habits—but most experts agree it is within our reach.

Cries of "timber crisis" are not new. In 1853 Henry David Thoreau, observing the leveling of New England's forests, predicted:



Bearded with the moss of time, a giant spruce takes the bite of an Alaskan logger's chain saw (facing page). Floated to a sawmill, it will become another offering to the world's insatiable appetite for wood. Responding to the demand, scientists develop "supertrees" to make forests more productive. Here a device records a crossbred seedling's carbon dioxide intake: the greater the rate, the faster the growth.

THE NEW YORK TIMES, SATURDAY, MARCH 7, 1970

A Curious War, Even Depicted on Picture Postcards

By GLORIA EMERSON
Special to The New York Times

SAIGON, South Vietnam, March 6 — It is a curious war. There are even colored picture postcards showing scenes of it.

y are sold in the lobbies of some of the expensive hotels and on the sidewalks of the downtown streets, where crowds of Vietnamese stroll and shop on weekends. Not many seem startled by the postcards, which are printed in Hong Kong and have captions such as "Direct hit" or "Mine detecting." There is one called "Night convoy moving cautiously" and another showing three American soldiers investigating a Vietcong trap, with a big arc of barbed wire in the foreground.

The Talk of Saigon

The Vietnamese prefer ards with more sentimental themes and those that cost less money. But some Americans soldiers on leave in Saigon and the occasional visitor find it fun to send the war postcards home.

They usually show American soldiers in action, but one on street fighting—one of the few depicting Vietnamese soldiers—has a fairly brisk sale, according to a 14-

Street fighting is now a joke since Saigon—and its twin city, Cholon, where a large Chinese community lives — have been peaceful since the 1968 Lunar New Year offensive. Last month a downtown building was damaged by an explosive but there were no injuries.

"I feel safer in Saigon, where I am not nervous walking alone in the streets at night, than I ever did in Washington, D. C.," a middle-aged American woman said recently.

She is one of the 2,100 American civilians sent here to work in the United States Embassy, the United States Information Services, the Agency for International Development and other Government activities.

THE most unloved landmark in Saigon, a huge, dark statue of two fighting Vietnamese marines cast in concrete, cost the Government of South Vietnam $25,000 when it was erected in 1966—and endless embarrassment since. No one considers the statue, which stands in a tiny park on Le Loi Street, an artistic achievement or a reason to feel more patriotic.

Miss Mai Thanh Thuy, a well-educated secretary who likes art, echos the prevailing scorn when she says, "Monstrous!"

One of the marines depicted is a fierce figure holding a weapon that looks like a grenade launcher. Unhappily it is pointed at the National Assembly building, which stands a few hundred yards away. Last year 42 deputies petitioned President Nguyen Van Thieu to have the statue removed. Nothing happened, but people insist that it will soon come down.

Many South Vietnamese believe that the statue, which dates from the period when Vice President Nguyen Cao Ky was Premier, symbolizes the tendency of military governments here to threaten the elected Assembly. Even though President Thieu is no longer a professional soldier, the statue reminds them of the danger.

"It is grotesque and it is sinister," said Chau Kim Dinh, a Buddhist who translates publications into English. His reaction is a typical one among intellectuals.

The second figure on the statue is a smaller marine, shown crouching and holding a rifle. There is a bitter joke among some Americans that he is a Vietnamese taking cover behind a G.I.

PIZZAS, named for Rome, Naples, Sicily and the Italian patriot Garibaldi, are a fad here—for the Americans. Nearly all Vietnamese prefer to go on eating their own food, which is excellent. The Pizzaria, near Tu Do Street, is an American paradise: chicken in the basket, hamburgers, pizza, corn on the cob, ravioli, fried scampi, onion rings and strawberries with whipped cream.

But is a costly paradise. A lunch for two persons costs $9 or more. The Pizzaria, owned by a Frenchman, is so attuned to American habits that it has a "food-to-go" service. A double Sicilian pizza with bread and butter costs $4.15 delivered in the neighborhood.

The prices have been translated at the official rate of exchange — 118 piasters to the dollar — the unofficial rate being more than double that. Americans who feel that changing dollars on the black market is immoral soon know how inflation hurts, but there are not too many of them who do.

MISS SUZIE's has no Suzie at all. It is one of the organizations in Saigon that arrange marriage certificates between Vietnamese and foreigners as well as certificates of cohabitation for Vietnamese women.

"I had a French secretary, Suzie, once upon a time," Johnny Ngoc, the manager, said.

Unlike the office called Miss Gina's, whose advertisement is headlined "Feeling Lonesome?", Miss Suzie's which runs daily notices Saigon's two English-l guage newspapers—is a s ous place. It makes the m money by selling secon hand cars; Japanese mod are the cheapest and m available.

What is a certificate cohabitation?

"According to Vietnam law, a woman living wi foreigner may be suspe by the police of prostitut so she must have this p to avoid distress with police who are looking," Ngoc said.

His office will not i more than one certificate cohabitation to the s woman.

EXPENSE-ACCOUNT SPLURGE IN JAPAN

TOKYO

Expense-account living is adding new dash to the life style of millions of Japanese businessmen.

In the United States, Internal Revenue Service enforces a hold-down on the company-paid tab. In Japan the "expense-account syndrome" is flourishing as never before.

Notes one observer:

"Today lavish living high on the company bag is encouraged by employers, expected by employes and tolerated by the Government

"The expense account actually is more than a 'second salary.' It is a status symbol, a tax refuge and a blank check to underwrite all the pleasurable things in life."

One indicator of how things are going: In 1968, the *shayasoku*—the expense-account set—spent 2.1 billion dollars on entertainment, an amount equal to 16 per cent of all corporate profits before taxes. This sum was more than the central Government spent that year on education and was four times the state subsidies for the needy.

The big bonanza. Expense accounts are not new here. What's different today is that practically every salaried employe above the clerical level—an estimated 3 million persons—is sharing in the expense-account bonanza.

It's quite a bonanza, too. A lower-level employe can expect perhaps $100 a month in expenses. But one section chief of a major oil firm draws $5,500 a month. And the annual entertainment "quota" of a top officer in one electric-machinery company is put at $277,000.

Rising income taxes are partly responsible for the expense-account splurge. Most such expenses can be "written off," whereas pay raises are taxable. One newspaper comments that the expense-account proliferation amounts to "legalization of tax evasion on a grand scale."

Low salaries also help explain the entertainment allowances. Few senior executives are paid more than $2,200 a month.

Another factor: Business as conducted here is far more personalized than in the West. It is important to develop good relationships with clients and to impress customers. So Japanese businessmen pull out all the stops to entertain their counterparts.

A golf date followed by dinner for several guests may run to $1,000 or more. Treating half a dozen customers to a meal in a restaurant in the company of geisha girls can easily cost over $600. An executive for a large company recently took 20 valued customers on an all-expenses-paid "inspection trip" to the Middle East.

Limousines, villas. Top officers in some firms are provided with chauffeur-driven limousines, a house in the city, a villa on the seashore and costly vacation trips. Free spending by the expense-account group has driven up the costs of even "standard" entertainment. An ordinary business lunch for two can take $25. Large cocktail parties—a new trend here—begin at $15 a person.

Often the measure of an evening's success is the size of the check. So the host will take his guests to Tokyo's celebrated Ginza district where more than 2,000 bars and cabarets charge the highest prices in the world. Drinks can be $15 each, and the nightly take in the area is over a million dollars.

Lavish gifts. Extravagant entertaining is matched by widespread distribution of gifts. Government officials work closely with businessmen and rate high on the gift lists. *Bon voyage* gifts to a Government official starting a short trip overseas recently amounted to several thousand dollars.

There are laws governing expense accounts. But loopholes abound. Dummy companies are created. Books are doctored. Phony research projects are set up. The Tax Administration Agency has neither the money nor the political clout to crack down on offenders. [END]

Japan: A Crowded Nation Wants To Boost Its Birthrate

Japan is the most crowded nation in the world. It has 102 million people—half as many as the United States—all crammed into a string of narrow islands that are smaller in total area than Montana. Moreover, 85 percent of Japan's territory is mountainous—a scenic splendor but ill-suited for habitation—so the huge population is actually squeezed into a series of narrow valleys and coastal plains. Japan far exceeds any other country in population density per inhabitable area. As of 1968, Japan had 1353 inhabitants per square kilometer of cultivable land, compared with 565 for runner-up Holland.

The resulting congestion seems unbelievable to many Westerners. Farmland is so scarce that one finds crops growing everywhere—up the sides of steep hills, in the narrow alleys between adjacent railroad tracks, even at the front stoop, where one ordinarily expects to find a lawn. In the cities, and even in rural villages, tiny houses are jammed side by side, with little or no yard space and barely enough room to walk between. Living is so close that privacy is difficult. As one Japanese physician expressed it: "It's a standing joke among us that you can always tell what a neighbor is cooking. If you can't smell it, you can hear the conversation."

Thus it came as a shock to many Westerners last summer when Prime Minister Eisaku Sato publicly advocated an *increase* in Japan's birthrate. Sato's statement, made in a speech to Japanese newspaper editors, seemed to mark a major reversal of Japan's population policy. For the past two decades, Japan has struggled to curb its population growth, and to a large extent it has succeeded. But now, the Prime Minister indicated, the population control effort may have gone too far. Sato noted that Japan's birthrate had fallen below the average for other advanced nations, and he said the government would strive to bring it back up to that average level. Thus, while other world leaders are struggling to curb the widely feared "population explosion," Japan seems to have embarked on a somewhat contrary course.

The Prime Minister's remarks caused great consternation in family planning circles in Japan, for even at the current rate of expansion, Japan's population is expected to rise to 131 million by early next century before starting to decline. Takuma Terao, an economist who is chairman of the Family Planning Federation of Japan, told *Science*: "I am entirely against the idea of raising the birthrate. Japan already has too large a population." Similarly, Minoru Muramatsu, one of Japan's leading authorities on the public health aspects of population growth, said in an interview: "In terms of space, Japan already has too many people. If you live in Tokyo, all you can find is a place to eat and a place to earn money. There is no green, no trees. I don't feel that people are living a very human life."

A High-Level Recommendation

Yet Sato's statement was no irrational, off-the-cuff remark by an uninformed politician. It was based on some cautiously worded recommendations made by the Population Problems Inquiry Council, a cabinet-level advisory group which includes some of Japan's leading demographers. Moreover, the recommendations are aimed at alleviating some potentially serious economic and social problems that are related, at least in part, to Japan's success at curbing its population growth. One such problem is a worsening labor shortage that threatens to undermine Japan's "economic miracle"; another is an increasing number of elderly people who will have to be cared for somehow, particularly now that Japan's traditional descendant family system, in which the younger generations cared for the older, is breaking up.

This article will make no attempt to prescribe what Japan's population policy should be, for the Japanese, one of the world's most highly educated and industrious peoples, are certainly capable of deciding for themselves what sort of future environment they want. But the Japanese situation is worth examining in some detail because the same problems—and the same political and economic pressures—may well arise in this country as the population growth here is brought under tighter control.

Japan has undeniably achieved remarkable success at controlling its birthrate. In the early 1920's, the birthrate stood above 36 per 1000 population, but then it declined moderately and steadily, a phenomenon that usually accompanies the transition from an agricultural to an industrial society. The rate fell as low as 26.6 in the late 1930's before the trend was reversed by the prenatal policy of Japan's military leaders. After the Second World War the rate soared back up as Japan experienced the normal "baby boom" that occurs when soldiers and overseas civilians return home. The birthrate reached 34.3 in 1947 (an intermediate level by world standards) and stayed above 33 in 1948 and 1949, before beginning the precipitous drop that has brought Japan such praise for its "population miracle." By 1957 Japan's birthrate had fallen to 17.2, a historically unprecedented drop of 50 percent in just 10 years. The decline seems especially sharp when measured from the peak of the postwar baby boom, but even compared with prewar trends, the reduction is considered significant.

What was the secret of Japan's success? Interestingly enough, many Japanese demographers describe the achievement as largely "spontaneous" in the sense that the Japanese people, faced with near-starvation economic conditions after the war, concluded on their own that they should limit the number of children. The news media and women's magazines issued dire warnings, particularly at the height of the baby boom, about the bleak future faced by a nation with too many mouths and a war-ravaged economy, and the highly literate Japanese population obviously got the message. The national government unquestionably helped the population control effort, chiefly by reversing its prenatal policy of the war period. A national Eugenic Protection Law, passed in 1948 and subsequently amended, removed the previous obstacles to birth control, abortion, and sterilization. But many Japanese experts believe the government was always at least one step behind what the people were already doing. One reason for the Eugenic Protection Law, for example, was that so many women were obtaining illegal abortions that the government decided it should protect their health by legalizing the procedure. "The government

had no definite policy to bring about population control," says Toshio Kuroda, chief of the migration research division at the government's Institute for Population Problems. "It just happened under the very extraordinary situation after the war. Ten years later people looked back and said we were successful at controlling our population. But no expert in Japan predicted it would happen."

The chief method for curbing the birthrate was induced abortion. The Japanese do not seem to have the strong religious scruples against "taking a life" that have hobbled efforts to increase the use of abortion in this country. Indeed, during the 18th and 19th centuries Japanese peasants often resorted to infanticide to get rid of unwanted children at times of crop failure. Today, abortions are legally obtainable for a number of health and economic reasons. In practice, they are said to be obtainable almost at will. The vast majority of abortions are performed by private physicians within the first 3 months of pregnancy, and most of these take place without overnight admission to a hospital or another medical facility. The operations are quite inexpensive, costing an average of $10 to $15, according to one estimate published in 1967. Health insurance benefits often bring the out-of-pocket cost down much further—sometimes even below $1.

Abortions Declining

The number of officially reported abortions (which is believed to represent about half the total number of abortions) reached a high of 1.17 million in 1955 but has since declined to 757,000 in 1968, largely because of government efforts to encourage contraception as an alternative to abortion. In the early 1950's, according to studies by the Institute for Population Problems, abortion accounted for roughly 70 percent of the decline in Japan's fertility while family planning accounted for 30 percent, but in recent years the percentages have been reversed.

The percentage of couples practicing contraception in Japan seems to be somewhat lower than the figure for comparable populations elsewhere. A 1965 survey indicated that about 67 percent of all Japanese couples either had practiced or were then practicing contraception, compared with perhaps 80 to 90 percent for Great Britain and for the white population of the United States. The most popular contraceptive methods have consistently been the condom and the "safe period" or a combination of both. The Japanese make little use of the "pill" or the intrauterine device (IUD), which are mainstays of the population control effort elsewhere, largely because conservative medical opinion in Japan believes it is not wholesome to introduce foreign materials into a healthy body. The government officially prohibits the insertion of IUD's and the sale of oral contraceptives, and while there are large loopholes in these laws, few Japanese use either of the methods.

Japan's success at curbing its population growth is believed to have contributed significantly to the fantastic economic boom that has propelled Japan's gross national product to third rank in the world. If Japan had not curbed its birthrate so sharply, some analysts say, then a sizable portion of the nation's capital resources would have been used to support new additions to the population and would not have been available for economic recovery and industrial investment. Yet the curbing of population growth has not been an unmixed blessing. As conditions have changed in recent years, industry has increasingly complained about a labor shortage, particularly a shortage of young laborers.

I found considerable disagreement as to whether Japan is really suffering from a labor shortage and, if so, what should be done about it. The age composition of the Japanese population has changed considerably over the past decade or two. There has been a sharp decrease, both absolute and relative, in the population of children below the age of 15, and a sharp increase, both absolute and relative, in the population over 65. Meanwhile, the working age population, from 15 to 64, has continued to increase, but at a slower and slower rate. The average annual increase in the working age population exceeded 1 million for the 1965–70 period, but it will drop to 620,000 for the next 5 years and will become negative by the end of the century. When viewed against the needs of a rapidly expanding economy, the labor pool appears to be shrinking.

"The labor supply has changed rather remarkably from surplus to shortage," says Saburo Okita, director of the Japan Economic Research Center and a member of the Population Problems Inquiry Council. "There is already a shortage of young workers, and while there is still some surplus of middle-aged workers and women, many of us predict there will be a serious labor shortage in the coming years." Some Japanese economists contend that a decline in West Germany's economic growth rate in the late 1950's was caused primarily by a drop in the growth rate for Germany's labor population, and they suggest that Japan's "economic miracle" may be stalled by the same problem.

Seeking Cheap Labor?

Yet Tokuma Terao, the economist who heads the Family Planning Federation of Japan, offers a much different analysis. "The industrialists say the labor shortage is very severe," he says. "But I say what is deficient is young labor, which is very cheap. So all we can say is that we lack cheap labor, only that." Terao and most other experts agree that the chief factor behind the shortage of young labor has not been the low birthrates, but rather the great growth in the number of young people who now go on to high school or college instead of beginning work at an early age. Terao believes it would be "rash to raise fertility" simply to assure more laborers. He believes it would be more sensible for Japan to "rationalize" its traditionally inefficient business enterprises so as to gain greater labor productivity. "We already have an abundance of laborers," he says, "but they are not well utilized."

The Population Problems Inquiry Council — the cabinet-level advisory group whose recommendations provided the basis for Prime Minister Sato's remarks—took a middle-of-the-road position. The council which is made up of some 40 public and private members, including academics and business and labor leaders, was asked in April 1967 to study the implications of Japan's low birthrate. Last August a subcommittee of the council issued an interim report on its findings; a final report is due this year. According to Kuroda, who sat on the council, the interim report represents a "compromise between those who are worried about a labor shortage and those who think Japan is already too populated." The report is said to have been drafted by Minoru Tachi, an eminent demographer who heads the government's Institute of Population Problems. An unofficial English translation was prepared by the U.S. State Department.

The report, if read carefully, does not seem especially earth-shaking. It notes that Japan's population, by some

measures, is no longer replacing it. It warns that this is causing certain problems; and it recommends that Japan seek to achieve a "stationary" population in terms of both total size and age distribution. The report makes no mention of what the ideal population for Japan should be, and as far as I could tell from talking to two members of the council—namely, Kuroda and Okita—there was little discussion of optimum population size. Instead, the report focused its attention on indicators that measure the changing growth rate and age composition of the Japanese population.

The report expressed particular concern over trends in the net reproduction rate, a measure of the extent to which the female population of child-bearing age is reproducing itself with female babies. If the net reproduction rate is 1, the population will potentially become stationary one generation later. If the rate exceeds 1, the population will continuously increase, and if it falls below 1, the population is expected to begin to decrease one generation later. Japan's rate is currently the lowest in the world except for some East European Communist bloc nations. It has remained slightly below 1 almost every year since 1956, generally ranging between 0.9 and 1.

A Rare Occurrence

The report states that while the rate has occasionally dipped below 1 in other countries, "it is very rare for such a situation to continue for more than ten years." (The net reproduction rate for the United States was 1.2 in 1967 and has not dropped below 1 since the 1930's.) The report suggests that Japan's population reproductivity is now "too low," and while it acknowledges that "a high population increase rate cannot be welcomed," it nevertheless believes it would be "desirable" for the net reproduction rate to return to 1 "in the near future" in order to ease the "severe changes in population composition by age."

But the report is very careful not to suggest any direct intervention by the government, such as subsidies to support additional children. Instead, the report simply urges the government to improve social conditions so that Japanese couples will spontaneously decide to have more children. The report also recommends that Japan improve its old-age welfare system and increase the productivity of its labor system.

The report gives no hint as to how its recommendations would affect the size of Japan's population, but there is no question that the population will continue to rise substantially. Government estimates for Japan's population in the year 2025 range from a minimum of 129 million (if the net reproduction rate remains below 1) to a maximum of 152 million, with the median projection being 140 million.

The report is so cautiously written that even such critics as Muramatsu acknowledge there is "nothing really wrong with it if you read the text very carefully." After all, who can object to the government improving social conditions? But opponents of the report are upset that mass media stressed the need for more births and largely ignored the question of social improvement. Some also feel the government was premature in its announcement, since they believe the net reproduction rate is already heading back toward 1, or even higher, without any encouragement. Other critics fear the government will eventually decide to intervene in a very direct way to encourage more births, and some even fear that the government's action was partly motivated by a desire to grow soldiers for a future large army.

At bottom, the disagreement is one of priorities. Those who regard economic expansion as the greatest good want more bodies to man the assembly lines. Those who are worried about overcrowding are willing to sacrifice some economic growth in return for more living space. The question of how much living space is desirable, however, is a knotty one. My own reaction to Japan was to be appalled at the overcrowding. But there is some evidence that the Japanese have grown accustomed to their close living conditions and actually even like them. Ichiro Kawasaki, a former Japanese diplomat, has written that the massive stone buildings of the West "overwhelm" Japanese travelers, and they soon "begin to miss the light wooden structures and small landscape gardens to which they have so long been accustomed." Similarly, Maramatsu, who spent several years at Johns Hopkins University and who frequently travels abroad, laments that many Japanese have no idea what he is talking about when he extols the "spacious way of living" in other countries. "For generations," he says, "many of our people have been living under the same conditions, so they don't question whether it is wrong or right."

Such differing attitudes toward space needs make it difficult for the expert in one advanced nation to suggest the best population policy for another advanced nation. Such differences also make it difficult to visualize how much of a burden population growth in any one country would really impose on future generations in that country. Perhaps future generations will enjoy living shoulder to shoulder.

The Lesson of Japan's Experience

Japan's decision to boost its birth-rate slightly may have an impact and significance beyond its own borders. Some family planning advocates fear Japan's action may throw a monkey wrench in worldwide efforts to curb population growth by somehow downgrading the importance of birth control. Others fear Japan demonstrates that radical population control can never succeed, for the minute a nation reaches the point where its population is apt to level off and then decline, various pressures—political, economic, and nationalistic—build up to reverse the trend. Both views are probably too apocalyptic, for Japan is merely trying to boost its net reproduction rate by a modest amount until it returns to 1—a level that is considered the desirable goal by planners in many other countries. Some U.S. experts, for example, have called for a stationary population and a zero rate of growth, and that is precisely what Japan is seeking.

The real significance of Japan's experience may be that it underlines the costs involved in achieving population control. Some experts in this country, such as Ansley J. Coale, director of the Office of Population Research at Princeton University, have pointed out that a stationary population and a zero growth rate have unfavorable as well as advantageous effects. Coale suggests, for example, that a stationary population "is not likely to be receptive to change and indeed would have a strong tendency towards nostalgia and conservatism." He also suggests that such a society would no longer offer "a reasonable expectation of advancement in authority with age," since there would be essentially the same number of 50-year-olds as 20-year-olds. Zero growth is unquestionably desirable at some point before crowding becomes painful, but in the current rush to jump on the population control bandwagon, it is well to remember that population control is not an unmixed blessing. There are costs involved, and someone will have to pay them.—PHILIP M. BOFFEY

1776 "F" Street, N.W.
Washington, D. C.

September 19, 1974

IMMEDIATE RELEASE

Detroit, September 19 - "There are no easy answers to inflation, but we must let business alone for a while, rather than badgering it with anit-business legislation, or we will kill the goose that lays the golden egg," Board Chairman Donald A. Gaudion of the National Association of Manufacturers told the White House Conference on Inflation today.

Mr. Gaudion, Chairman of the Board of Sybron Corporation, Rochester, New York, said the NAM believes there are a series of things we can do to reverse the inflationary trends and gradually work it out of the system. He urged a program that would:

* Maintain a posture of severe restraint on money and credit expansion, acknowledging that such restrictions cannot do the job alone without courting disaster.
* Slow up establishment of great new Federal programs that we cannot afford, get the budget in balance, and slow the rise in the level of spending.
* Encourage savings and capital formation by reversing tax policy in such areas as capital gains and depreciation.
* Bring recognition that efforts to raise real wages by large increases in monetary wages are futile and counterproductive.
* Forthrightly renounce wage and price controls, with Congress and the White House and also avoiding such intervention as wage-price guidelines, which are of doubtful value.
* Thoroughly reassess costs and benefits of governmental requirements for environmental programs and industrial safety, which should be balanced against the burden they place on the economy.

STATEMENT OF

DONALD A. GAUDION

CHAIRMAN OF THE BOARD, SYBRON CORPORATION

AND

CHAIRMAN OF THE BOARD, NATIONAL ASSOCIATION OF MANUFACTURERS

AT THE

CONFERENCE ON INFLATION

DETROIT, MICHIGAN

SEPTEMBER 19, 1974

There are no easy answers to inflation unless we want to severely deflate through an experience like the mid-thirties where corporate profits disappeared and we had over 25% unemployment. There are a series of things we can do to reverse the inflationary trends we set in motion and gradually work it out of the system.

(1) The disorganization and demoralization of financial markets is partly the result of measures taken to curb inflation, and partly the result of the inflation itself. It is made worse by artifically-imposed limitations such as state usury laws and ceilings on interest rates paid by savings institutions. Our financial institutions generally were not designed for, and do not work well in, a period of inflation as bad as the last two years. The conclusion I come to is that we will need to maintain a posture of severe restraint on money and credit expansion, but that such restrictions cannot do the job alone without courting disaster.

(2) We must develop fiscal responsibility in government. We must slow up the establishment of great new programs that we cannot afford. We must let business, the goods and payroll production side of our society, alone for a while rather than badgering it with more anti-business legislation -- or we will kill the goose that lays the golden egg. We need time to digest the programs already in being and get the budget in balance -- at a level of spending that will not continue to rise as steeply as in the recent past.

(3) We must encourage rather than discourage savings and capital formation if we are to build the productive capacity necessary to meet unprecedented global demand. This involves reversing tax policy in such areas as capital gains and depreciation.

(4) There must be mutual recognition by employers and employees -- both of whom are victims of this inflation rather than its cause -- that efforts to raise real wages by large increases in monetary wage rates are futile and counterproductive. They spread the inflation through the industrial sector, instead of restoring the purchasing power of industrial employees.

(5) A forthright renunciation of wage and price controls, by both the Administration and Congress, will be helpful in restoring confidence. Even the fear that such controls might be reimposed has adverse economic effects. Other forms of government intervention, such as wage-price guidelines, are of doubtful value.

(6) There needs to be a thorough reassessment of costs and benefits of governmental requirements for environmental improvement, industrial safety, etc. While the objectives of such programs are indisputably desirable, they should be balanced against the burdens they place on the economy to determine where the true public interest lies.

DOW THE DOW CHEMICAL COMPANY

BENNETT BUILDING
2030 DOW CENTER
MIDLAND, MICHIGAN 48640

September 16, 1974

The Honorable Frederick B. Dent
The Secretary of Commerce
Washington, D.C. 20230

Dear Fred:

Attached are the statement I made at the September 19 Conference on Inflation in Detroit and our more detailed discussion of the questions that were asked of participants.

Sincerely,

Carl

Carl A. Gerstacker
Chairman of the Board

Carl A. Gerstacker
Inflation Summit Meeting
(Detroit Regional)
September 19, 1974

No one in our country wants the kind of inflation we are suffering -- it hurts everyone. We need not only aggressive leadership such as our President is demonstrating; we need to have all our citizens fighting shoulder to shoulder, voluntarily, to reduce inflation -- then we will get somewhere.

I would propose that Government initiate this voluntary support of the citizenry by means of what might be called a "five and ten" program. Under this program Government would ask industry to take a pledge, company by company, not to raise its price index by more than a reasonable level, such as five per cent, from Labor Day 1974 to Labor Day 1975. And Government would ask labor leaders to pledge that they would limit their wage demands to a reasonable level, such as 10 per cent, during the same period.

I believe such a program would find the support of both industry and labor, and under strong leadership from the President and Congress we could make this work. I would like to see many companies flying a flag that said they were backing the program -- the flag being awarded to those who pledge to fight inflation by staying within these reasonable boundaries.

If such a positive program were adopted, Dow Chemical would be one of the first to pledge to do its part. Unions, stores, and companies that met or bettered the standards that were set should receive public approval.

I do not know that five and ten are the right numbers -- this should be open to debate, of course. There could be very legitimate reasons for variance in different industries. The important thing is to set standards -- reasonable standards -- and get industry and labor to pledge to try to meet those standards.

Within a short time, under the pressure of public opinion, many would take the pledge -- and we'd all get together and fight inflation. That's the important thing.

Inflation is simply too much money chasing after too few goods, so our money supply needs to be held to a reasonable growth by the Federal Reserve. At present the control is too tight.

The other side of the story is the supply and demand for food and goods. When demand is increasing faster than supply you get an inflationary push. What we need to do is to produce so much food, so much goods, so much of everything, really, that hungry competitors will try so hard to sell their products that prices will stabilize and even decline -- as is presently happening with gasoline prices, for example.

If we produce more food and goods, that will bring more jobs and more productivity, and this is what we should do -- accentuate the positive, get supply to outrun demand, so that we have both more goods and more jobs.

I also feel that interest rates must be reduced -- right now. They contribute to inflation by raising costs and reducing investment, and when you reduce investment you reduce the supply of food and goods.

Capital must be made more freely available -- immediately -- for the investments we need to make in housing, utilities, and industrial expansion.

And very importantly, governments must balance their budgets -- particularly the Federal budget -- and live within their incomes, as all of us should. And governments should do this by cutting their expenses, not by increasing taxes.

But for all of these things to happen we need some program to serve as a focal point -- something we can all get behind. I think the "five and ten" program I have suggested would do this, and do so in a fair and just manner. I believe such a program would bring about an increase in the living standard of all Americans.

DOW CHEMICAL COMPANY'S COMMENTS ON QUESTIONS FOR THE CONFERENCE ON INFLATION AT DETROIT
September 19, 1974

A. Fiscal

1. Expenditures

Expenditures should be cut below $300 billion for fiscal 1975. There should be a balance or surplus for fiscal 1976.

Expenses should be cut outside the U.S. more than in the U.S. Examples are - defense, foreign aid, and particularly the cost of our troops in Europe. (Selling government bonds to the German government does not pay for the cost of our troops in Europe).

Domestic cuts should come in government operating expenses for such things as people and travel. The postoffice should be forced to break even. Interest rates and total debt should be reduced. Farm subsidies should be cut or eliminated.

2. Receipts

Federal tax levels should not be reduced or increased but some changes would be beneficial. Investment in the production of food, materials, and goods should be stimulated.

This could be done by a temporary increase in the investment tax credit to apply to investments started within the next year, a reduction in the corporate income tax for reinvestment in buildings and equipment which exceeded a certain percent of gross plant or sales, and retained earnings reinvested in the business might be taxed at a lower rate.

Also there should be a further reduction in the double taxation on dividends.

There might be a tax reduction to individuals who invested a portion of their income in regulated industries like utilities. (This was done in Brazil in the 1960's). These reductions in business taxes should be balanced by a temporary surtax on corporations. There should also be a temporary surtax on individuals to balance any tax relief or government employment expenses for lower income groups. It would also be helpful to reduce the taxation of profits on U.S. produced exports. Another balancing tax increase could come from an increase in the estate or inheritance tax rates.

B. Monetary policy

Interest rates must be reduced immediately. They are contributing directly and indirectly to inflation.

The availability of capital, whether in the forms of loans or equity sales, must be improved. The lack of capital, particularly for utilities, small business, and farmers is increasing inflation by increasing shortages of goods now and later.

Capital will not be available from the equity market until there is a substantial recovery in the stock market.

C. Government regulations

Many government regulations hurt productivity and increase inflation. Examples are -

Cabotage laws which require shipments in American owned vessels.

Davis-Bacon Act which results in higher costs on federal or federally assisted construction projects and raises the cost of all construction.

Automatic escalators in government pensions which foster inflation and inflation psychology.

Government's failure to attack union monopoly. (Unions demand and receive larger pay increases with rising unemployment).

Government failure to control terrorism and vandalism in the building industry as reported thoroughly in the Reader's Digest.

Government failure to promote right to work laws.

Government fostered unemployment compensation payments and food stamps to workers on strike prolongs and encourages strikes.

Government pollution regulations which increase the cost and reduce the production of autos, coal, and nuclear power.

Government laws which prevent the reduction of food prices by the addition of such things as soybeans to meat.

Government tax structure as outlined above.

Wage and price controls should not be reinstated at this time because they are now inflationary. As was pointed out in the summary statement, government should set voluntary standards or guidelines for industry, labor and financial institutions and then accentuate the positive by asking Americans to pledge to try to live up to these standards. (See attached "5" and "10" program).

There are no exactly correct standards for reasonable price increases for all industry. If an annual increase of five per cent was used, this might not be enough for some industries who may have cost increases greatly exceeding that. In such a case we think industries should be allowed to exceed the standard if in doing so they did not increase their profit margins. The same problems apply to wages. A 10 per cent standard might be proper for many people but might be inadequate for employees whose pay has not been recently adjusted because of a long-term contract or some other special situation. In those cases, wages should be allowed to rise more than the standard.

When it comes to funneling capital from banks and other agencies into the most worthy sectors of the economy, some people may feel that voluntary allocations will not work. Obviously they will be difficult but they will be better than any attempt by government to allocate capital in a mandatory fashion. Most lenders will be able to differentiate between the customers whose needs will benefit the economy and reduce inflation and those needs which may be of no benefit.

Unions, companies and lending agencies which meet or better the standards should be singled out for public praise. For example, companies could be awarded five per cent flags to fly if they limited increases to five per cent and unions could be awarded 10 per cent flags. Public pressure in recognizing good performance would be a positive force.

We should not let our short-term problems stop the progress that we are making on improving the environment.

However, a temporary slowing of the demands for environmental improvement would not do much harm. No lead gasoline is inflationary because it raises the cost and requires the refining of more oil. There is no real proof that lead in gasoline does any harm to the environment. We are requiring the same auto pollution standards in small hamlets in Northern Michigan that we require in Los Angeles. Obviously this is a needless cost and expense to people living in areas where the autos are so few and the space so vast.

Without taking inappropriate risks, we must push nuclear power generation and continue to expand the use of coal. We have lived with coal pollution for generations and can stand it for a few more years to reduce inflation.

D. International conditions

On the international scene, the U.S. must balance its payments and stop continuous deficits which have spawned much of the world's inflation.

Again the positive rather than the negative is the best. It is better to increase exports than to decrease imports. It is better to be at least in balance in trade than to have a deficit made up by capital inflows. We must make exporting as profitable as possible for this purpose and should improve and liberalize tax laws like DISC.

It would be nice to come back to fixed rate currency relationships, but it is not practical at this time, and so floating rates should be continued.

We must force Arab surpluses to be recycled into long term investments, and the U.S. must get at least its share to balance the cost of imported oil.

The U.S. must invest to become as self-sufficient as practicable in raw materials. This will require government subsidy in some cases. For example, oil shale should be developed in a major way and then put in standby as long as imported oil is available at substantially lower costs than producing domestically from shale.

Domestic oil and gas should be developed even in areas with environmental problems so that the production would be available in the event of war or political upset.

Each mineral will have somewhat different problems but fundamentally we should develop the capability of self-sufficiency and be willing to put the capacity in standby when there are cheaper import availabilities. (One interesting sidelight here is the fact that we are 100 per cent self-sufficient in magnesium metal which is produced from ocean water, an inexhaustible source of supply).

Long-Term Recommendations

Capital investment and production of everything from food to manufactured products must be increased. Shortages are the surest way to inflation.

Inefficiency and lack of productivity on the part of government and union employees must be decreased because our standard of living can only be improved by increased productivity. It won't be increased by taking away from one segment of our people and giving to another.

We should balance government budgets domestically and internationally. No one can continuously spend more than he takes in.

We must keep a free economy with as little government interference as possible and encourage the profit motive. Socialist and communist countries are rapidly becoming capitalistic because they admire our greater productivity. At the same time, we are becoming more socialistic because capitalism has brought such affluence to our people that they feel they can afford to doubt its principles.

Inflation cannot be stopped -- it can only be reduced gradually. If we don't understand this, our goals will be unrealistic and the results will be poor.

Short-Term Recommendations

Government must take some positive popular action now and not postpone it until next year.

Interest rates must be reduced immediately, and confidence must return to the stock market.

The supply of capital must be increased immediately to essential users.

Unemployment should be held below six per cent by short-term special government programs.

Government should subsidize housing and capital investment. It should buy up any surplus food produced.

It should temporarily relax pollution and environmental regulations.

Government should set standards for performance for the next year for companies and workers.

Government expenditures should be balanced and tax laws should be temporarily revised as recommended above.

Some temporary additional taxes such as an increase in the gasoline tax might be helpful short-term to reduce demand and increase government income.

The "5" and "10" Program

During World War II the U. S. Government successfully promoted the "E" award program with defense contractors. High level U. S. or State officials usually presented the flag to one of the top company officers at a ceremony, and there was a real feeling of accomplishment across the land.

A similar program advocated by President Ford should be used today to mobilize citizens, companies, and unions to help reduce the inflation that all of us are coming to grips with today.

Why not award a flag with a large "5" in its design to all concerns whose chief executive officer pledges to keep ANNUAL WEIGHTED average price increases below 5%? Firms whose present situations on costs prohibit this immediately could set a time-table internally and work toward the day when their chief executive officer could step forward to make the pledge for his company and fellow workers. (RE-EMPHASIZE THIS POINT. EVERYONE ULTIMATELY PLEDGES. THE ONLY VARIABLE IS WHEN, NOT HOW MUCH. THAT EXERTS A LITTLE DELICATE PRESSURE.)

At the same time, the program would also include the awarding of a "10%" flag to labor unions whose presidents pledge to keep wage increase demands to less than 10% per year. Labor allegedly is determined to keep wages rising faster than inflation. This would accommodate that position.

Considerable impetus in this effort against inflation could be achieved if the awards program were conducted on a plane similar to the "E" awards program of World War II. The time is perfect. Every reasonable interest wants the present government to succeed. All forces are in a mood (which is at its crest right now) to cooperate by showing some restraint.

Highlighting the awards program might be a reception for awardees held by the President. A very constructive rivalry between individual firms, and between unions could be generated. Once momentum was built up, there would be tremendous incentive for even the most reluctant to participate eventually. It would simply be good business and the patriotic thing to do.

It is reasonable to assume that consumer groups, and organizations representing citizens on fixed incomes -- such as retirees -- would publicly laud companies and unions flying such flags. Some no doubt would encourage their members to purchase goods and services as much as possible from organizations awarded these flags.

The media would be happy to turn their talents and energies toward advancing a participative program, one which induces cooperation, as opposed to programs which encourage recalcitrance. An approach of this type would have many constructive effects and would be a positive means of motivating restraint by industry and labor as they stand shoulder to shoulder with the government to reduce inflation. Deep down in the worst of us is a "Good Guy" trying to get out. Let's make it easier for him!

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